



MAY REVISION

GRAY DAVIS, GOVERNOR, STATE OF CALIFORNIA

2000-01
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The May Revision to Governor Davis' January Budget provides updated economic and revenue forecasts, as well as the latest caseload, enrollment, and population information for programs in the education, public safety, and health and human services areas.

California's economy continues to be robust. Revenues are forecast to be above the levels forecast in the January Budget by \$5.764 billion in the 1999-00 fiscal year, and by \$6.555 billion in the 2000-01 fiscal year, for a combined two-year increase of \$12.319 billion.

Education remains this Administration's top priority. The May Revision invests an additional \$3.992 billion in K-12 education, boosting per-pupil spending to \$6,672, an increase of \$359 over the January Budget.

The May Revision also provides one-time prosperity dividends totaling \$1.9 billion for taxpayers whose contributions have helped to sustain California's strong economic performance.

Other major components of the May Revision include important expansions in health care and public safety, new investments in transportation, housing, and natural resources.

Key features of the May Revision include:

EDUCATION

- ▲ \$1.84 billion in unrestricted funds to school districts, eliminating the deficit in cost-of-living adjustments from the early 1990s.
- ▲ \$545 million to allow credentialed teachers in public schools to exempt all of their teaching earnings from state personal income tax.
- ▲ \$500 million to reward teachers, administrators, counselors and other employees at schools that show significant improvements in academic performance.
- ▲ \$402 million for school computers, internet connectivity, and technological professional development.
- ▲ \$300 million for intensive English Language and Literacy instruction by school districts and libraries in collaboration with community-based and other local organizations.

TAX RELIEF

- ▲ \$1.76 billion for one-time income tax rebates of up to \$150 for single and \$300 for joint-return filers.
- ▲ \$154 million for expanded assistance to senior homeowners and renters.

HEALTH CARE

- ▲ \$59.2 million to provide health care coverage for all 639,000 children estimated to be eligible for the Healthy Families Program by June 30, 2001.
- ▲ \$115 million to eliminate burdensome reporting requirements for Medi-Cal working families, resulting in 250,000 children and approximately 150,000 adults retaining coverage.
- ▲ \$30 million to provide treatment for breast cancer and prostate cancer for uninsured, low income women and men.
- ▲ \$101.4 million for programs to enhance the quality of life for California's mentally ill, reduce the homelessness, incarceration, and hospitalization.

PUBLIC SAFETY

- ▲ \$50 million for processing 18,000 rape investigation kits to establish innocence and determine guilt in unsolved sexual assault cases.
- ▲ \$96 million for the construction of a state-of-the-art joint city-county crime lab in Los Angeles.
- ▲ \$75 million for counties to build, renovate or expand local juvenile detention facilities.

TRANSPORTATION

- ▲ \$2.2 billion over five years from the sales tax on gasoline, plus a \$1.5 billion general fund appropriation, and \$1.6 billion in future general fund appropriations to fund Governor Davis' Traffic Congestion Relief Plan.

HOUSING

- ▲ \$500 million to increase the supply and affordability of an array of housing options.

ENVIRONMENT

- ▲ \$75 million, to be matched with non-state funds, to provide \$150 million for the acquisition of open space, wildlife habitat and park lands.
- ▲ \$125 million to implement the CALFED Bay-Delta program.
- ▲ \$125 million for the cleanup and redevelopment of contaminated land.

E-GOVERNMENT

- ▲ \$10 million to improve service to Californians through e-government.

RESERVE FOR ECONOMIC UNCERTAINTIES

- ▲ \$530 million to increase the state's reserve for economic uncertainties.

THE ECONOMY

Both the U.S. and California economies continued to post robust gains in the early months of 2000, and there are few signs that growth will slow in the near future. Reflecting this performance, forecasts of most key economic indicators for both the U.S. and California have been revised upward from those in the January Governor's Budget.

THE NATION

The nation's inflation-adjusted gross domestic product (GDP) grew at a 5.4 percent annual rate in the first quarter, following a 7.3 percent surge in the closing months of 1999. However, the slowdown is considerably less than the overall figure implies. Final sales—excluding volatile changes in business inventories—actually accelerated from 6.0 percent real growth in the fourth quarter to 6.9 percent in the opening months of 2000. Consumer spending—which represents two-thirds of the economy—jumped 8.3 percent at an annual rate, the largest gain since 1983, when the economy was beginning to recover from the long, deep 1980-82 recession. Business fixed investment surged at a 21 percent pace, after rising less than 3 percent in the final quarter of 1999.

Early reports suggest that this strong performance is continuing in the second quarter. In April, the national economy added 340,000 nonfarm jobs, and the unemployment rate fell below 4 percent for the first time in more than 30 years, when the Vietnam War was near its peak. Last month's 3.9 percent jobless rate was the lowest peacetime reading since 1957.

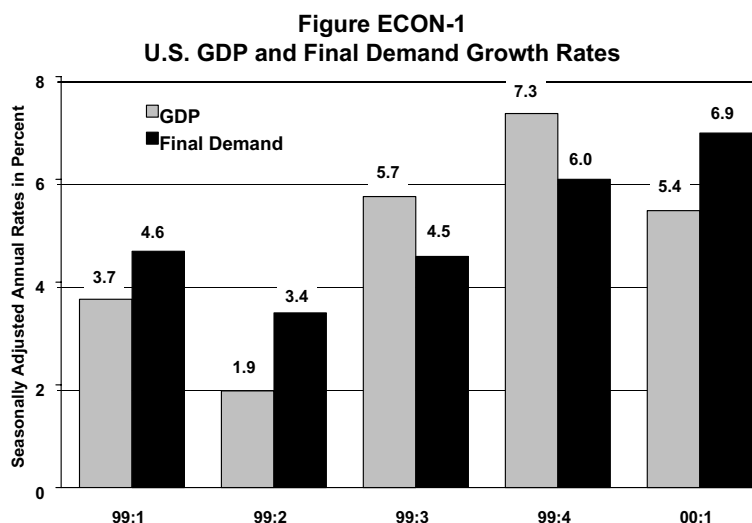
However, the recent surge in growth, coming after a record-breaking nine years of economic expansion, has raised concern among Federal Reserve policymakers. Even acknowledging a marked improvement in productivity gains—to as much as 3 percent per year—the working-age population is growing only 1 percent annually, implying that sustainable long-term growth should be around 4 percent or slightly less. Yet, over the last three quarters, real GDP has averaged a 6 percent pace.

Adding to policymakers' apprehension is an uptick in key inflation measures. The Employment Cost Index, which measures both wages and benefits, jumped 1.4 percent in the first quarter, the sharpest rise in 11 years.

The GDP price index for consumer spending rose 3.2 percent during the period, the largest gain since 1994. With growth exceeding Fed "speed limits" and signs of inflationary pressures now clearly visible, interest rates are likely to rise throughout the remainder of this year, and perhaps into early 2001 as well.

Nonetheless, recent robust growth virtually assures that the year 2000 will prove to be the strongest of this record-breaking expansion, with real GDP advancing

FIGURE ECON-1



almost 5 percent, well above the 3.1 percent pace expected in the Governor's Budget. The impact of higher interest rates can be expected to slow growth late this year and in 2001, but real growth is still forecast at a very respectable 3 percent pace next year. The U.S. forecast is summarized in Figure ECON 2.

FIGURE ECON-2

Selected U.S. Economic Indicators

	1999	Forecast	
		2000	2001
Real gross domestic product, (1996 dollar) (Percent change)	4.2	4.9	3.0
Personal consumption expenditures	5.3	5.1	3.4
Gross private domestic investment	5.8	10.1	2.9
Government purchases of goods and services	3.7	2.9	1.3
GDP deflator (1996=100) (Percent change)	1.5	1.7	1.7
GDP, (Current dollar) (Percent change)	5.7	6.3	4.8
Federal funds rate (Percent)	5.0	6.3	6.7
Personal income (Percent change)	5.9	6.3	5.7
Corporate profits before taxes (Percent change)	8.5	3.2	(7.2)
Nonfarm wage and salary employment (Millions)	128.6	131.6	133.7
(Percent change)	2.2	2.3	1.6
Unemployment rate (Percent)	4.2	3.8	3.8
Housing starts (Millions)	1.7	1.6	1.5
(Percent change)	3.4	(1.7)	(6.6)
New car sales (Millions)	8.7	9.3	8.8
(Percent change)	6.8	7.0	(5.6)
Consumer price index (1982-84=100)	166.6	171.2	175.7
(Percent change)	2.2	2.8	2.6

*Forecast based on data available as of April 2000.
Percent changes calculated from unrounded data.*

INTERNATIONAL DEVELOPMENTS

In 1999, most Asian economies—Japan was the notable exception—posted strong recoveries from the deep recessions of 1997 and 1998. South Korea led the upsurge and is California's fourth largest foreign market. Mexico, which last year surpassed Japan as the state's largest export destination, is posting solid growth, as is third-ranked Canada. Western Europe and the United Kingdom strengthened from less than 2 percent growth early last year to 3 percent at the end of 1999.

The rebound in Asia, coupled with gains in Mexico, Canada and Europe, has resulted in a significant turnaround in California export volumes. California-made exports rose 9 percent in the second half of last year, after declining for six consecutive quarters. Not surprisingly, sales to East Asia (including Korea, Taiwan, China, Hong Kong and Singapore) surged almost 30 percent. Japan was about flat after two years of sharp declines, and other major areas posted solid gains.

Over the next year, economic conditions in California's major export markets should remain favorable. Mexico is on solid economic ground, the rising peso reflecting strong foreign investment flows not only from the U.S., but also from Asia and Europe. Asia should continue to expand, although not at the breakneck pace of last year. Even Japan should see modest growth in 2000.

CALIFORNIA

Economic growth in California is even more robust than the national pace. The state added more than a half-million nonfarm payroll jobs between the first quarters of 1999 and 2000, a growth rate of 3.7 percent. The jobless rate in the first quarter averaged 4.7 percent, the lowest ever recorded in the 30 years for which comparable data are available. Homebuilding—particularly multi-family units—continued to increase. Sales tax collections for the first quarter are consistent with 10 percent year-to-year growth in taxable sales. State personal income tax withholding in the first three months of 2000 jumped 20 percent from the early 1999 level, implying that very strong personal income growth continued into the opening months of the new year.

In the forecast, a number of key export industries are expected to benefit from stronger economic growth overseas, including electronics manufacturing, motion pictures, aerospace and agriculture. The improved prospects for exports will help offset the effects of the expected slowing in the U.S. economy. Nonfarm employment growth is expected to average 3.4 percent this year, up from 2.9 percent in the Governor's Budget. In 2001, job gains are projected at 2.6 percent, little changed from the 2.5 percent increase in the January Budget. The California forecast is summarized in Figure ECON 4.

FIGURE ECON-3

Real GDP Growth for Major California Export Markets Fourth Quarter 1998 to 1999

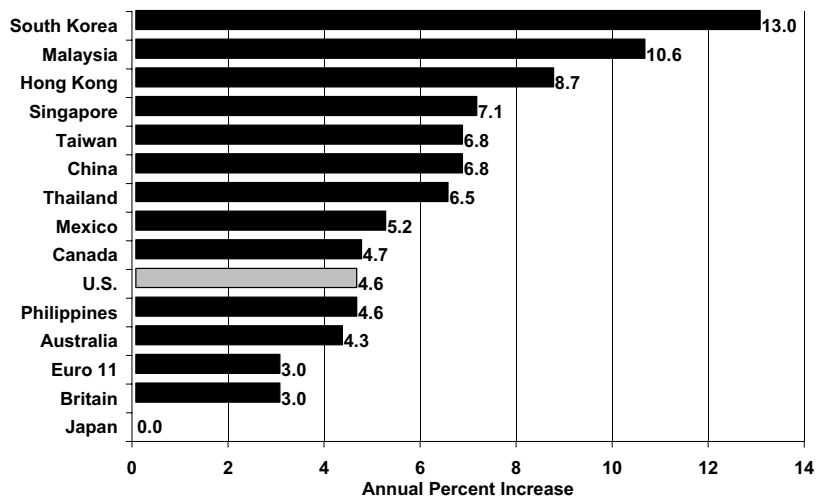


FIGURE ECON-4

Selected California Economic Indicators

	1999	Percent Change	Forecast			
			2000	Percent Change	2001	Percent Change
Personal income (\$ bill.)	\$1,002.6	7.8%	\$1,077.2	7.4%	\$1,135.3	5.4%
Nonfarm W&S employment (thous.)	14,018	3.1%	14,493	3.4%	14,877	2.6%
Mining	23	-6.7%	22	-4.3%	21	-4.7%
Construction	681	11.5%	752	10.3%	808	7.5%
Manufacturing	1,923	-1.4%	1,929	0.3%	1,943	0.7%
High technology	511	-4.2%	502	-1.8%	504	0.4%
Transportation/utilities	719	3.4%	743	3.3%	759	2.1%
Wholesale & retail trade	3,206	2.6%	3,292	2.7%	3,368	2.3%
Finance group	820	2.5%	836	1.9%	849	1.6%
Services	4,410	4.4%	4,627	4.9%	4,799	3.7%
Government	2,236	3.3%	2,293	2.5%	2,330	1.6%
Unemployment rate	5.2%		4.4%		4.1%	
Housing permits (thous.)	140.9	12.0%	155.8	10.6%	168.6	8.2%
Consumer price index	168.5	2.9%	174.4	3.5%	180.6	3.6%

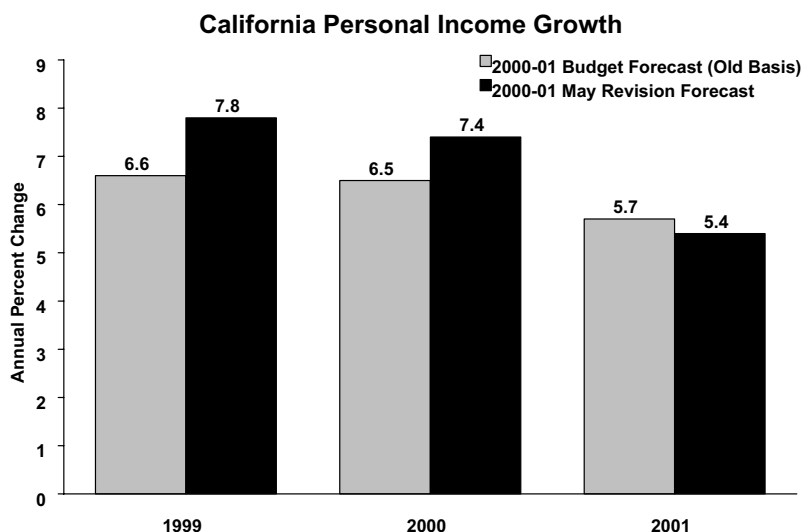
Forecast based on data available as of April 20, 2000.
Percent changes calculated from unrounded data.

NOTE ON CALIFORNIA PERSONAL INCOME

The personal income figures used in this forecast have been revised sharply upward from those in the Governor's January Budget. For example, the current estimate of 1999 California personal income growth is 7.8 percent, compared to 6.6 percent in the January Budget. The forecast for 2000 income growth is boosted to 7.4 percent from 6.5 percent growth in the Governor's Budget. In 2001, the 5.4 percent advance is slightly less than in the Budget forecast.

Payroll tax reports (ES-202) for the second and third quarters—which were not available when the Budget forecast was prepared—indicated much stronger-than-estimated wage and salary growth. In addition, the Department of Finance has attempted to estimate the effects on California personal income of last fall's comprehensive revision to the national income accounts. The new series for the nation exhibits somewhat stronger underlying growth, mainly reflecting conceptual changes in the treatment of public sector pension funds.

FIGURE ECON-5



Personal Income and the State Appropriations Limit (SAL)—The U.S. Bureau of Economic Analysis (BEA), whose income estimate is required by statute for SAL calculations, will release the first preliminary state personal income figures on the new basis on Wednesday, May 17, too late for inclusion in this May Revision document. Moreover, BEA will not fully incorporate 1999 payroll tax data until the annual revisions in September. Because the payroll data will not be fully incorporated in the May 17 BEA release, the SAL factor is likely to be considerably lower than implied by the Department of Finance's estimate of 1999 personal income growth.

The Effect of the Stock Market on Personal Income—As discussed more fully in the following section on revenues, a significant and rising proportion of California General Fund revenue is being generated in the stock market. There are two direct effects of stock market performance on tax revenue—capital gains and the exercise of employee stock options. (There are also important indirect economic and revenue effects on consumer spending, corporate profits and business investment.) However, only stock options are included in personal income, reported as wages and salaries. Capital gains are treated as an increase in household wealth and do not enter the national income accounts.

From Securities and Exchange Commission filings, the Department of Finance estimates that wages from the exercise of stock options totaled \$51 billion in 1999, or 9 percent of total wages and almost 12 percent of taxable wages. That figure is double the 1998 estimate of \$26 billion, and represents a fourfold increase since 1996.

There is little question that 1999 was an extraordinary year for stocks, especially shares of high-technology companies that are heavily concentrated in California. The NASDAQ stock index—where most technology stocks are listed—jumped 86 percent over the course of 1999. Even more impressive was the performance of initial public offerings (IPOs). At initial offering prices, the volume of IPOs of California-based firms shot up fivefold last year, and the aftermarket price—which determines the value of options that are typically exercisable six months after the offering—soared by more than 300 percent over the course of last year, as measured by the Bloomberg IPO index.

The strong stock market performance continued through the early months of 2000, and was no doubt an important factor in the 20 percent jump in personal income tax withholding receipts during the first quarter. More recently, however, markets have faltered. As of May 10, the NASDAQ was 17 percent below the year-end 1999 close, and the Bloomberg IPO index was down more than 25 percent.

Given the renewed uncertainty about the stock market—especially in light of likely Federal Reserve interest rate hikes—the personal income forecast reflects a \$12.4 billion reduction in stock option income. For 2000, employee stock option income is assumed at \$39 billion or a little over 6 percent of total wages. Even at the reduced level, the assumed volume of stock options is still 50 percent higher than in 1998.

REVENUE ESTIMATES

Revenues are projected to be above the 2000-01 Governor's Budget forecast by \$5.764 billion in 1999-00 and \$5.554 billion in 2000-01, for a combined increase of \$11.318 billion. Excluding the May Revision revenue proposals, the increase would be \$12.319 billion.

This incredible revenue surge is being driven largely by stock market activity which is propelling capital gains and stock option income far beyond all projections. Capital gains realizations are estimated to have reached almost \$84 billion in 1999—a phenomenal increase from the \$17 billion level just five years earlier. Stock options, which are reported as wages for tax purposes, are estimated to have doubled in 1999 to reach \$51 billion. In part, this reflects the sharp increase in initial public offerings last year, coupled with their strong aftermarket performance. Assuming a 9 percent tax rate, these components combined are estimated to have generated roughly \$12 billion in the current year, or 17 percent of all General Fund revenues.

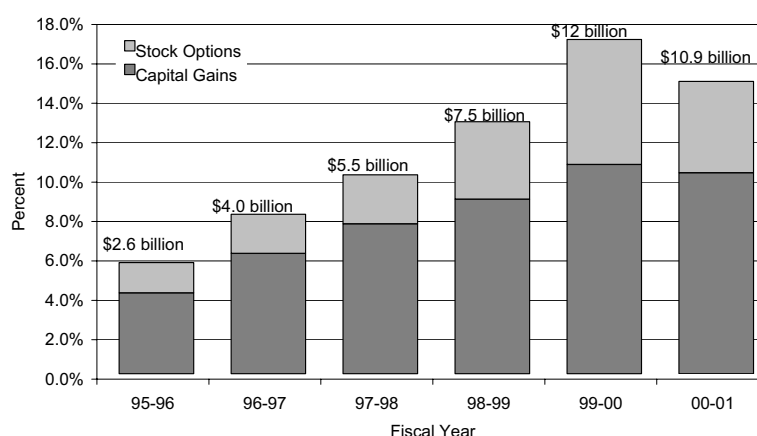
The forecast assumes that the level of capital gains seen in 1999 will be repeated in 2000.

However, since the market has been more uncertain recently, revenue from stock options is not expected to reach last year's level.

The forecast also includes the effect of the Governor's proposals to provide significant tax relief to California taxpayers. These proposals are outlined in the Tax Relief section.

FIGURE REV-1

**Capital Gains and Stock Option Revenue
as a Percent of Total General Fund Revenue**



PERSONAL INCOME TAX

The personal income tax forecast has been increased by \$4.437 billion for 1999-00 and \$4.882 billion for 2000-01. The budget year estimate was reduced by \$545 million from the January Budget forecast due to the Administration's proposal to exclude teachers' salaries from the personal income tax. (See the Education section for additional information on this proposal.)

The remarkable strength in cash receipts has heavily influenced the forecast revision. April's receipts were 39 percent higher than those of April 1999, which in turn were a healthy 14 percent above April 1998. As noted above, this outstanding growth continues to be driven by stock market activity as well as by wage growth caused by exercising stock options. (See the discussion on the economy for more information on option activity.) Based on year-to-date cash receipts, capital gains for the 1999 tax year are estimated to have increased 45 percent, to almost \$84 billion. Whether or not such growth rates can be sustained is debatable, but the volatility of capital gains and stock option income clearly adds uncertainty and unpredictability to the revenue outlook. In recognition of this uncertainty, the May Revision

forecast assumes that taxable capital gains will remain flat through 2001. A swing of 10 percent in either direction will result in a revenue gain or loss of about \$750 million, excluding the impact on stock options which could also be dramatic.

SALES AND USE TAX

The sales and use tax forecast has been increased by \$648 million in 1999-00 and reduced by \$18 million in 2000-01, for a combined gain of \$630 million over two years. The budget year decline reflects a proposal to use \$440 million of the sales tax on gasoline for transportation purposes.

Through April, sales tax receipts are \$550 million or 3.5 percent above the 2000-01 Governor's Budget forecast. The stock market "wealth effect" is believed to contribute to the current strength in this tax. Taxable sales in 1999 grew by 9.3 percent, the highest rate since 1984. Taxable sales in 2000 are forecast to grow by 6.9 percent.

BANK AND CORPORATION TAX

The bank and corporation tax forecast has been increased by \$563 million in 1999-00 and \$564 million in 2000-01, for a combined increase of \$1.127 billion. The budget year forecast was reduced by \$16 million due to the Administration's May Revision proposal to increase the research and development credit.

Through April, bank and corporation tax receipts are \$472 million or 16.7 percent above the 2000-01 Governor's Budget forecast. This increase is attributable to strength in the final payments for 1999 calendar year corporations, which were \$145 million above forecast, as well as to payments made by partnerships and limited liability companies.

FIGURE REV-2

General Fund Revenue Forecast Reconciliation with the Governor's Budget Forecast (Dollars in millions)

	Governor's Budget	May Revision	Change Between Forecasts	
Fiscal 1998-99				
Personal Income Tax	\$30,891	\$30,891	\$0	0.0%
Sales & Use Tax	18,957	18,957	0	0.0%
Bank & Corporation Tax	5,724	5,724	0	0.0%
Insurance Tax	1,254	1,254	0	0.0%
Other Revenues	2,108	2,108	0	0.0%
Transfers	-319	-319	0	0.0%
Total	\$58,615	\$58,615	\$0	0.0%
Fiscal 1999-00				
Personal Income Tax	\$34,461	\$38,898	\$4,437	12.9%
Sales & Use Tax	20,236	20,884	648	3.2%
Bank & Corporation Tax	6,092	6,655	563	9.2%
Insurance Tax	1,277	1,294	17	1.3%
Other Revenues	2,753	2,842	89	3.2%
Transfers	341	351	10	2.9%
Total	\$65,160	\$70,924	\$5,764	8.8%
Change from Fiscal 97-98	\$6,545	\$12,309		
% Change from Fiscal 97-98	11.2%	21.0%		
Fiscal 2000-01				
Personal Income Tax	\$36,319	\$41,201	\$4,882	13.4%
Sales & Use Tax	21,396	21,378	-18	-0.1%
Bank & Corporation Tax	6,236	6,800	564	9.0%
Insurance Tax	1,304	1,321	17	1.3%
Other Revenues	2,996	3,109	113	3.8%
Transfers	-14	-18	-4	28.6%
Total	\$68,237	\$73,791	\$5,554	8.1%
Change from Fiscal 98-99	\$3,077	\$2,867		
% Change from Fiscal 98-99	4.7%	4.0%		

SHARING CALIFORNIA'S PROSPERITY: TAX RELIEF

As a result of the state's strong economic performance and the resulting revenues, the Administration is proposing significant tax relief for California taxpayers. In addition to the tax proposals presented in the Governor's Budget, the May Revision includes the following provisions:

- ▲ **Personal income tax rebate**—A one-time prosperity dividend tax rebate is proposed for every Californian with an income tax liability in 1999. Single taxpayers would receive \$150 and married couples filing jointly would receive \$300, or the amount of their 1999 liability, if that amount is lower. This rebate benefits 12.3 million California taxpayers at a cost of \$1.76 billion in 2000-01.
- ▲ **Increase in Senior Citizens' Property Tax and Renters' Assistance programs**—Assistance payments for low-income senior citizens and disabled individuals would more than double on a one-time basis, providing \$154 million in additional benefits in 2000-01.
- ▲ **Increase in net operating loss carryovers**—The Governor's Budget included a proposal to increase the percentage of losses that could be carried over to subsequent years from the current 50 percent to 55 percent beginning January 1, 2000, and to 60 percent beginning January 1, 2002. The May Revision forecast would enhance this proposal by increasing the carry-over percentage to 65 percent beginning January 1, 2004.
- ▲ **Increased research and development credit**—The current 12 percent credit allowed for research expenditures would be increased to 15 percent, beginning with the 2000 tax year. This investment in the state's economy is expected to cost \$16 million in 2000-01.

TAX RELIEF

EDUCATION

GOVERNOR'S K-12 INITIATIVES

Fully Funding the Schools—In order to permanently eliminate the deficit created by the underfunding of cost-of-living-adjustments during the 1990s, the May Revision provides an unprecedented augmentation of \$1.84 billion in discretionary funding. This increase in general purpose support will allow schools to raise teacher salaries, purchase needed instructional technology and materials, begin implementation of necessary reforms, or utilize the additional funding in other ways that will lead to greater student achievement. This action marks the single greatest increase in discretionary funding in recent California history, and demonstrates the

Administration's commitment to making education its number one priority.

Personal Income Tax Exclusion for

Teachers—Teaching in public schools is the single most important commitment one can make for the future economic prosperity of California. In recognition of the contribution teachers make to California's future, all wages received by fully credentialed teachers for teaching in K-12 public schools would

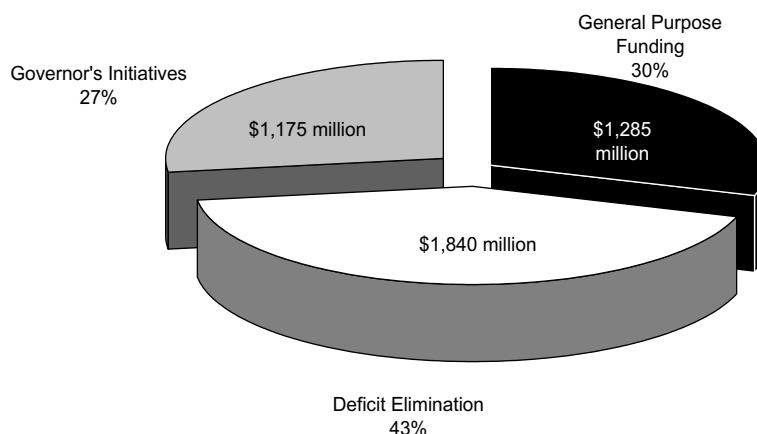
be permanently excluded from income for state personal income tax purposes. This program is estimated to result in a revenue reduction of \$545 million in the budget year.

Certificated Staff Performance Bonuses—The May Revision also provides \$500 million in one-time funding for the Academic Performance Index Teacher Performance Awards program. This one-time program will provide monetary awards of between \$2,000 and \$5,000 to certificated staff in K-12 public schools that succeed in meeting their API score growth targets during the Spring 2000 testing, regardless of whether the schools are classified as low-performing. These funds will be sufficient to provide awards to approximately 132,600 teachers.

The English Language and Literacy Intensive Program—The foundation of California's commitment to improving student achievement must be to ensure that every child can read and write in English. The English Language and Literacy Intensive Program is a Governor's Initiative designed to provide intensive instruction in English language fluency and literacy for English Language Learners. This \$300 million two-part program will expand the Governor's Intensive Reading Academies to serve K-12 English Language Learners, and will provide locally recruited and trained language and literacy tutors to help students improve their English language skills.

FIGURE K-12-1

**What the K-12 Proposition 98 Increase From 1999-00
Budget Act Buys in 2000-01
(Total = \$4.3 Billion)**



EXPENDITURES

The classroom-based portion of this program will provide \$250 million to fund 120 hours of additional language and literacy instruction for 625,000 English Language Learners. Instruction will be provided during intersession breaks, after school, on Saturdays and during the summer. The program will give priority to schools serving high concentrations of English Language Learner students. Program funding will be awarded on a competitive basis at a rate of \$400 per participant.

The California State Library will administer a second component of this program, providing \$50 million in grant funds to serve 170,000 English Language Learners and their parents in literacy and English Language Learner programs. Program funding will be awarded on a competitive basis at a rate of \$300 per student. Program providers will offer year-round literacy and English language tutoring in collaboration with local schools, colleges, universities, and faith-based and other local organizations, with Community-Based English Tutoring Program volunteers serving as tutors.

Connecting California Schools. California is a world leader in technology innovation, and the use of technology in the classroom must reflect that leadership. The May Revision provides \$402 million in one-time funds to improve access to computers for students through the Connecting California Schools Initiative. These funds will complement \$200 million in the Governor's Budget for the Education Technology Initiative, and will be used as follows:

- ▲ \$325 million Proposition 98 General Fund in the Office of the Secretary for Education to purchase computer hardware, for a total of \$500 million. This funding will bring California above the national average for computers per student.
- ▲ \$50 million General Fund in the University of California to expand connectivity and network infrastructure for K-12 schools by linking universities, K-12 schools, and county offices of education to the Internet2.
- ▲ \$25 million General Fund in the Office of the Secretary for Education to contract with the California State University to train teachers and administrators in the use of technology for instructional programs and improved accountability, for a total of \$50 million.
- ▲ \$2.25 million from the Proposition 98 Reversion Account in the State Department of Education for the California Technology Assistance Project to conduct an education technology survey and assist local education agencies in developing technology plans to obtain available education technology resources.

PROPOSITION 98 GUARANTEE

1999-00 \$1,457.7 million

2000-01 \$2,369.7 million

The May Revision includes a two-year total Proposition 98 increase of \$3.8 billion over the January Budget. The May Revision proposes total Proposition 98 spending of \$42.7 billion in 2000-01, which includes \$1.1 billion in spending above the required guarantee level. This augmentation will become a permanent part of the ongoing Proposition 98 base amount.

The May Revision reflects both significant changes to state revenue and personal income estimates, as well as K-12 average daily attendance (ADA). There is a slight decrease in the property tax growth estimate for 1999-00 (from 7.1 percent to 6.9 percent), and a moderate increase in 2000-01 (from 8.0 percent to 8.2 percent). These revised estimates and the \$1.1 billion General Fund augmentation combine to increase the State's General Fund share of the Proposition 98 guarantee by a two-year total of \$3.8 billion, up by \$1.4 billion in 1999-00, and \$2.4 billion in 2000-01 (see Figure K-12-1). The revised K-12 dollars per pupil increased

by \$359 above the January estimate to \$6,672, a jump of 6 percent above the \$6,285 in 1999-00, and a 16 percent increase above the final 1998-99 figure of \$5,756 per pupil (see Figure K-12-3).

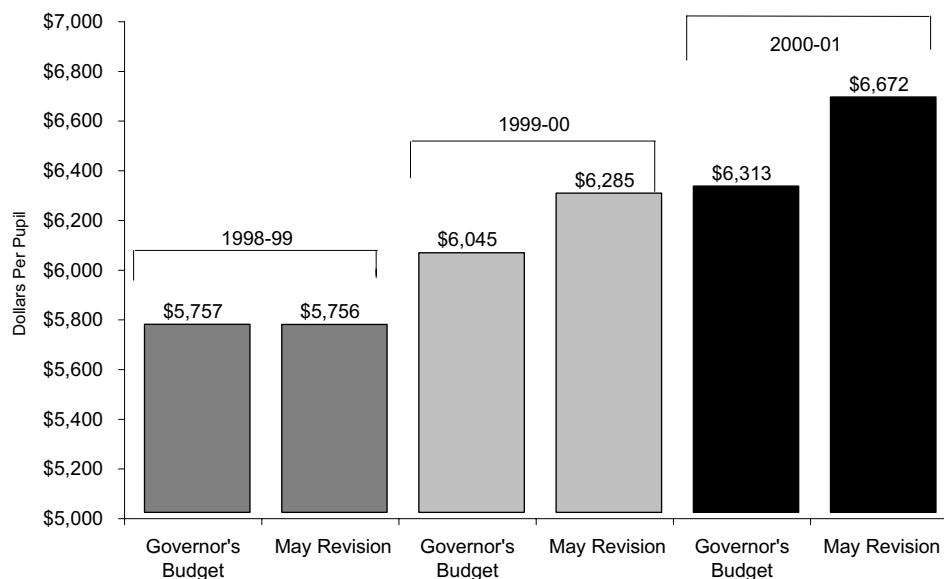
FIGURE K-12-2

**Proposition 98
January vs. May Revision
(Dollars in Thousands)**

1999-00	January Proposal	May Revision	Change
General Fund	\$26,489,338	\$27,947,015	\$1,457,677
Local Revenue	11,638,979	11,580,151	-58,828
Total Guarantee	\$38,128,317	\$39,527,166	\$1,398,849
2000-01	January Proposal	May Revision	Change
General Fund	\$27,883,962	\$30,253,647	\$2,369,685
Local Revenue	12,485,473	12,431,981	-53,492
Total Guarantee	\$40,369,435	\$42,685,628	\$2,316,193

FIGURE K-12-3

K-12 Funding Per Pupil



K-12 EDUCATION

1999-00 \$1,256.1 million

2000-01 \$2,477.8 million

The May Revision provides \$3,733.9 million in additional General Fund resources for K-12 education above the January level, exclusive of the Personal Income Tax exclusion for teachers. Total General Fund allocations of \$30,491.9 million for K-12 education now represent 38.9 percent of the total General Fund budget.

The total amount of new K-12 Proposition 98 resources in 2000-01 over the 1999-00 Budget Act level is \$4.3 billion, which includes additional General Fund and increased property tax revenues. As shown in Figure K-12-1, 30 percent of the Proposition 98 increase is devoted to additional general purpose funding for school districts, 43 percent is to eliminate the deficit and 27 percent is spent on other Governor's Initiatives.

Current Year

School district and county office of education revenue limit appropriations reflect an increase of \$43.7 million since the Governor's Budget, resulting from increased estimates of ADA and a decreased estimate of local property tax revenues. The May Revision includes estimated K-12 ADA growth for 1999-00 of 1.91 percent, up slightly from the 1.82 percent in the Governor's Budget. The higher ADA also increases funding for special education programs by \$13.1 million in the current year. Further, funding of \$16 million is included for prior year state mandate claims. Funding for special education and state mandates is allocated from the Proposition 98 reversion account.

Current year Proposition 98 funds have been increased by \$239 million for mandates, \$50 million for Teacher Bonuses, \$325 million for Education Technology, \$500 million for Academic Performance Index Teacher Performances Bonuses and \$250 million for the English Language Learner Intensive Program.

Budget Year

For 2000-01, State General Fund support of K-12 education will increase by \$2.5 billion since January, due to the General Fund spending above the calculated Proposition 98 required level (\$1.1 billion), changes in property tax growth (-\$39.8 million), statutory growth (\$62.4 million), and the combined effect on the Proposition 98 guarantee of revised estimates of state revenues, personal income, and population. The revised level of spending reflects a change in the statutory cost-of-living adjustment (COLA) from 2.84 percent to 3.17 percent, and the elimination of the statutory deficit in K-12 apportionments (\$1.84 billion).

In the budget year, the revised ADA growth rate is up slightly, from 1.26 percent to 1.45 percent (about 13,000 ADA higher than the January estimate). The total number of ADA is estimated to be 5,600,743 in 1999-00 and 5,682,112 in 2000-01.

Growth Adjustments—The May Revision provides an additional \$62.4 million to fund an increase in the statutory growth rate, from 1.26 percent to 1.45 percent. The major adjustments include an increase of \$67.2 million for K-12 apportionments, a reduction of \$17.0 million for county office of education apportionments, an increase of \$4.7 million for special education, and an increase of \$2.6 million for categorical programs in the former Mega-Item.

COLA Adjustments—The May Revision also provides an additional \$113.7 million to fund an increase in the K-12 COLA rate from 2.84 percent to 3.17 percent. The major K-12 COLA adjustments include increases of \$79.8 million for K-12 apportionments, \$10.5 million for special education, \$7.5 million for categorical programs in the former Mega-Item, and \$5.0 million for K-3 Class Size Reduction.

Governor's Performance Awards Programs—An augmentation of \$40 million is included to fully fund awards at \$150 per pupil (the maximum allowed under the Public Schools Accountability Act, Chapter 3X of the Extraordinary Session of 1999) for all schools that achieve a 95 percent pupil participation rate on the Standardized Testing and Reporting (STAR) examination and also reach their Academic Performance Index growth targets. With existing funding of \$192.3 million, these awards will total \$232.3 million.

Existing law establishes the Certificated Staff Performance Incentive Act, which provides monetary awards of between \$5,000 and \$25,000 to certificated staff at those low-performing schools that succeed in meeting their annual Academic Performance Index (API) growth targets. This program is currently funded at \$50 million in both the current and budget years.

The May Revision provides \$100 million to increase program funding in both years to \$100 million. These funds will be sufficient to provide awards to approximately 12,250 teachers in each fiscal year.

Governor's Reading Awards Program—The May Revision augments this program by \$2 million to double the number of schools receiving awards, from 400 to 800. Established by Chapter 2X of the Extraordinary Session of 1999, the Governor's Reading Awards Program encourages reading by providing grants of \$5,000 each to the top schools in defined quartiles of schools, as measured by their pupils having read the most pages. Additionally, the May Revision proposes \$4 million to continue the Reading Public Involvement Campaign (California READ) into a second year.

Standardized Testing and Reporting (STAR) Assessment Program—The May Revision includes an augmentation of \$20.2 million to fund cost-of-living increases for the program and support the development and administration of writing prompts for pupils in grades four and seven. The addition of these writing assessment instruments will provide a more complete picture of pupil achievement in California.

Access to Advanced Placement (AP) Coursework for High School Pupils—Consistent with the Governor's goal of providing access to AP coursework for all public high school pupils by the beginning of the 2001-02 academic year, the May Revision includes augmentations of \$8.5 million to increase the grant award amounts proposed for the Advanced Placement Challenge Grant program, \$1 million to expand the University of California's on-line AP course pilot program, and \$300,000 for the Advancement Via Individual Determination (AVID) Center to develop curriculum for a training program for vertical teams of teachers. The May Revision also shifts \$500,000 from the 1999-00 fiscal year to the 2000-01 fiscal year for a study of AP course availability and assistance for school districts to increase pupil access options.

Immediate Intervention/Underperforming Schools Program—The May Revision provides an additional \$3.9 million to fully fund planning grants of \$50,000 each to a second cohort of 430 new participants in the program. Participants in this program can receive grants of approximately \$168 per pupil for up to three years to support school-wide reform efforts designed to increase pupil achievement. This funding will ensure that these reforms are well designed and can be effectively implemented at these schools beginning in the 2001-02 academic year.

National Board Certification Support—An additional \$150,000 is provided for support of the National Board Certification Incentive Program. This program is responsible for the provision of monetary awards to teachers who earn certification by the National Board of Professional Teaching Standards.

Funding Augmentation for the Professional Development Institutes—The May Revision includes a \$35 million augmentation for the Professional Development Institutes proposed in the Governor's Budget. Modeled after the Reading Professional Development Institutes, these institutes are being proposed for teachers who teach English, writing, algebra, math, and English Language Learners. The institutes are intended to serve 70,000 teachers. Participating teachers will earn stipends of between \$1,000 and \$2,000 depending upon the duration of the institute attended. Of the \$35 million proposed, \$16.3 million is provided to ensure the appropriate level of funding is available for teachers attending the institutes, and \$18.7 million is contained in the University of California budget for the additional costs associated with program expansion.

Teaching As A Priority (TAAP) Program—An additional \$15.9 million in additional funding is provided for the TAAP program. The January Budget contains \$52 million for this program, for a total of \$67.9 million which will help low-performing schools recruit credentialed teachers.

Digital High School—The May Revision includes \$24 million in reappropriated Proposition 98 funds for the Digital High School Program to reflect updated enrollment adjustments needed to ensure that adequate funds are provided for the fourth year of the program and that all remaining high schools can participate.

Increased Resources for the Audits and Investigations Division—The May Revision includes \$450,000 to improve program oversight and to increase the number of desk audits reviewed by the Audits and Investigations Division at the State Department of Education. This augmentation will allow the department to use \$150,000 to contract with state agencies to audit high-risk and community-based service providers, and \$300,000 to address the existing backlog of Child Care desk audits at the department.

Ongoing Child Care Policy Review—This spring, the Administration initiated a review of child care policies and resources in an effort to assure equitable access to child care for working poor families, within available resources. This effort has drawn from recent research in the field, policies in other states, current demographic and budget information, and the views of a broad cross section of non-profit groups and state agencies. However, this effort has been hindered by a lack of data needed to model policy options involving revised fee and subsidy levels, eligibility thresholds, time limits, and other variables which could better focus existing resources toward serving the state's neediest families. The Administration will continue to work with the Department of Education in the coming months to complete the needed data gathering. The May Revision provides the resources necessary to complete the department's data collection efforts, including continuation of current year staffing and additional funding for consultant services to model the effect of changes to the various programmatic variables.

Pending completion of this review, the May Revision continues the Governor's commitment to fully fund, for one year, the former CalWORKs caseload projected to exhaust the two-year transitional benefit afforded in current law. In the event currently budgeted funds are insufficient, a streamlined process is proposed to address any shortfalls.

Child Care Quality Improvement—The May Revision provides over \$16 million in additional one-time funds for child care quality activities, including \$10 million to implement the first phase of the CalWORKs Center Based Pilot initiative, authorized in the current budget, which seeks to increase access to high quality care for CalWORKs families. Additionally, over

\$6 million is proposed for technical assistance for child care providers to access facility financing, additional repair and renovation grants, and additional discretionary quality enhancements.

CalWORKs Child Care Caseload—The May Revision fully funds CalWORKs child care, including the estimated budget year cost of Stage 3 child care for those families that have reached the two-year limit on transitional benefits. Stage 2 caseload is reduced by \$85.5 million, reflecting an average monthly caseload decrease of approximately 20,000 for a budget year caseload averaging 97,400 per month. This reduction reflects a slowing in the rate of migration from Stage 1 and a decrease in the estimate of participation by two-parent families. There are no changes in the Stage 3 estimate for the budget year.

The May Revision also includes additional state operations resources to implement a monthly caseload and fiscal tracking system for both Stages 2 and 3 which should improve the department's ability to make timely allocations and to ensure service delivery and transition between the stages.

STATE LIBRARY

1999-00	<i>No Change</i>
2000-01	<i>\$50.3 million</i>

The May Revision proposes an increase of \$50.3 million General Fund to enhance library services and improve literacy in California.

- ▲ \$50.3 million General Fund to implement an English Language and Literacy Intensive Program through local libraries. This year-round program will provide grant funds for local library literacy and English Language Learner programs, and will serve 170,000 English Language Learners. Program grants of \$300 per student will be awarded through a competitive grant process administered by the State Library. Program providers will offer year-round literacy and English language tutoring in collaboration with non-profit and faith-based local organizations. This program will draw volunteers from the Community Based English Tutoring Program established by Proposition 227. Volunteer tutors will work in local community inclusive settings, providing homework assistance, literacy and language tutoring, and teaching parents how to help their children with homework.
- ▲ \$3.2 million in one-time Proposition 10 funds to expand the Families For Literacy Program. The funds will provide additional grants targeted to reach children up to age 5 and their caregivers. Of the funds provided, \$1.1 million will increase literacy instruction grants and provide funding for 13 additional libraries, and \$2.1 million will purchase mobile library units for expanding access to materials in rural and inner city areas.
- ▲ \$2.1 million in bond funds for implementing the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000 (Proposition 14). In March of 2000, voters approved the \$350 million bond measure. These funds will enable the California State Library to administer the program and allocate continuously appropriated local assistance bond funds to communities.

COMMISSION ON TEACHER CREDENTIALING

1999-00	No Change
2000-01	\$150,000

Teacher Credential Fee Buyout Program—The January Budget contains \$1.5 million for the Commission on Teacher Credentialing to absorb the cost of providing 27,300 new teachers their initial teaching credential at no cost. The May Revision provides an additional \$150,000 for this program, which will expand the number of participants to 30,000.

Reduction of the Teacher Credentialing Fee—Because the Commission has a fund reserve that is sufficient to allow for a reduction in the fees that are charged for the issuance or renewal of a teaching credential, the May Revision proposes to reduce these fees from \$60 to \$55.

HIGHER EDUCATION

California Community Colleges

1999-00	\$50.0 million
2000-01	\$202.6 million

Current Year

The May Revision includes a one-time block grant of \$50 million allocated on an equal per-FTE basis, for the purposes of scheduled maintenance, special repairs, and instructional equipment. These funds will assist the colleges in providing a high quality and accessible learning environment with modern materials and equipment.

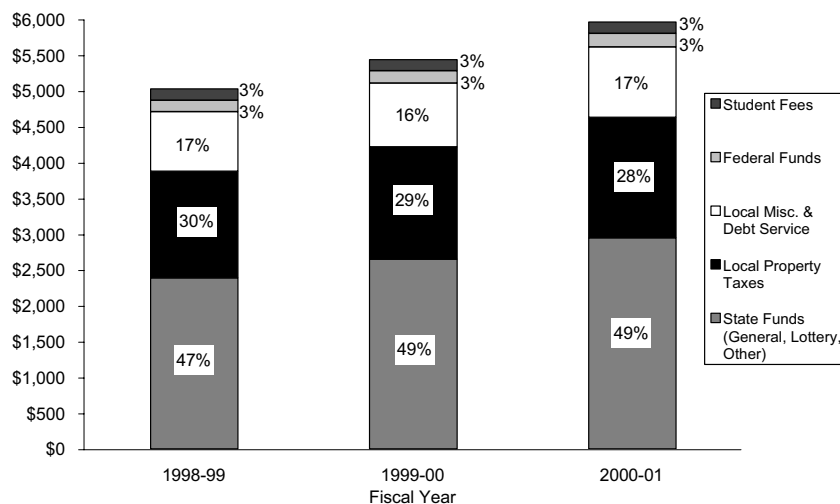
Budget Year

Total revenues for the community colleges are estimated to be \$6.0 billion from all funds in 2000-01, a \$525 million increase over the revised estimate for 1999-00.

The May Revision proposes a \$202.2 million (Proposition 98 General Fund) increase for local assistance and \$400,000 (General Fund) for state operations within the community colleges.

FIGURE HIED-1

Revenue for Community Colleges Source of Revenues (Dollars in Millions)



Districts will use the funds to improve student outcomes, expand workforce development, and upgrade infrastructure. Significant budget adjustments include the following increases:

- ▲ \$130 million for the Partnership for Excellence, which districts can use at local discretion for improving student outcomes. The colleges may focus on increasing the number of transfers or transfer prepared students, advancing students towards degrees or certificates, improving the rate of successful course completions, developing the workforce or fostering basic skills. This augmentation brings the total funding for the Partnership to \$300 million.
- ▲ \$25.1 million for the Economic Development Program to meet California's demands for a well-trained workforce, by increasing the number of industry-college collaborations to provide specific training for regional employment needs, especially in inner city, high density population, and rural areas of the state.
- ▲ \$14 million for the Telecommunications and Technology Infrastructure Program to enhance the quality and access of education provided to students.
- ▲ \$11.3 million for new transfer centers to ensure that each community college increases student awareness of transfer opportunities, strengthens collaborative efforts with other higher education institutions, and eases the transition of students to four-year institutions.
- ▲ \$22.2 million resulting from changes to local revenue, as well as other technical adjustments.

University of California (UC)

1999-00	<i>No change</i>
2000-01	<i>\$123.8 million</i>

The May Revision proposes an increase of \$123.8 million, detailed below, both for University priorities as well as to enhance the K-12 programs in which UC participates. In addition, the May Revision provides additional funding in the Department of Fish and Game and the Wildlife Conservation Board for environmental work and acquisition relating to the construction of the new campus at UC Merced. Funding is proposed for the following significant changes:

- ▲ \$50 million to expand Internet2 access to all UC campuses and K-12 schools, by utilizing regional hubs located at county offices of education
- ▲ \$12 million to provide an additional one-percent for University priorities
- ▲ \$18.8 million to increase the duration of the Professional Development Institutes proposed in AB 1941
- ▲ \$1.1 million to provide scholarship funding under the Governor's Teacher Scholars Program
- ▲ \$1 million to expand UC's AP On-Line Pilot Program to additional high schools. This will result in increasing access to Advanced Placement coursework for high school students desiring a more rigorous academic experience
- ▲ \$35 million to provide additional resources to the University to address some of the exceptional needs in deferred maintenance and instructional equipment.

California State University (CSU)

1999-00	<i>No change</i>
2000-01	<i>\$42.4 million</i>

The May Revision proposes an increase of \$42.4 million detailed below, for CSU priorities. Funding is proposed for the following significant changes:

- ▲ \$11.3 million, on a one-time basis, and continuation of \$1.7 million on a permanent basis, to enable CSU to develop the CSU Stanislaus Multi-Campus Regional Center at the site of the former Stockton Developmental Center.
- ▲ \$10 million to fund core needs for the CSU Channel Islands campus.
- ▲ \$2.2 million to develop service learning courses and create service learning offices at each CSU campus. This funding will allow CSU to increase participation in service learning courses, over four years, to approximately 15 percent of the student body, from the current 8 percent. In addition, the service learning offices will develop and coordinate community service placements for CSU students.
- ▲ \$18.9 million to provide an increase for CSU system-wide priorities

Student Aid Commission (SAC)

1999-00	<i>No change</i>
2000-01	<i>\$42.4 million</i>

The May Revision proposes funds for expanding outreach services for the various financial aid programs, and increasing publicity for the Assumption Program of Loans for Education through a media campaign. Funding is also included to increase the number of Cal Grant awards to the equivalent of 25 percent of high school students, provide funding for support costs, and restore the Cal Grant T program. When combined with funds included in the January Budget, a total of \$71.9 million will be provided for 25,549 additional new Cal Grants, an increase of 38 percent over 1999-00. Funding is proposed for the following significant changes:

- ▲ \$42.2 million to increase the total number of new awards to the equivalent of 25 percent of high school graduates.
- ▲ \$10.0 million to restore 3,000 Cal Grant T awards.
- ▲ A downward adjustment of \$10.8 million, for the redistribution of awards to provide 10 percent of new awards to Cal Grant C recipients, and to reflect the Administration's proposal to establish a minimum GPA, for high school graduates, of 3.1 for Cal Grant As and 2.4 for Cal Grant Bs.

Higher Education Infrastructure

UNIVERSITY OF CALIFORNIA

1999-00	<i>No change</i>
2000-01	<i>\$55 million</i>

MERCED CAMPUS

The May Revision includes an additional \$5 million General Fund to ensure that sufficient resources are made available to enable the opening of the UC Merced campus by Fall 2004.

In addition, authorization is proposed to permit the flexibility of project delivery by means of design-build procurement.

TEACHING HOSPITALS INFRASTRUCTURE

Legislation will be proposed to authorize \$600 million of lease revenue bonds for seismic renovations at UC's five acute care teaching hospitals.

The May Revision also includes \$50 million General Fund to fund non-seismic infrastructure needs at teaching hospitals throughout the UC system.

CALIFORNIA STATE UNIVERSITY

1999-00	<i>No change</i>
2000-01	<i>\$40 million</i>

SYSTEMWIDE

The May Revision includes an additional \$40 million General Fund to accelerate the completion of the Integrated Technology Strategy-Technology Infrastructure Initiative at various campuses throughout the CSU system.

EXPENDITURES

TRANSPORTATION

DEPARTMENT OF TRANSPORTATION

1999-00 *No Change*

2000-01 **\$1.8 billion**

Governor's Traffic Congestion Relief Plan

The backbone of California's economic growth is the state's transportation system. In April 2000, the Administration announced a comprehensive investment in California's transportation systems, aimed at relieving traffic congestion, improving the movement of goods, and strengthening the integration of highway and transit systems. This program—the Traffic Congestion Relief Plan—will provide \$5.3 billion in critically needed transportation resources from the General Fund over the next five years towards over 100 locally-recommended projects throughout the state.

In recognition of California's robust economy, the May Revision proposes to forego bonded indebtedness in favor of pay-as-you-go funding for the Traffic Congestion Relief Plan. The May Revision provides \$1.94 billion as a first-year installment of funding for this plan:

- ▲ **\$1.5 billion General Fund**—An appropriation of \$1.5 billion from the General Fund is provided for transfer to a new Traffic Congestion Relief Fund to be enacted pursuant to a budget trailer bill.
- ▲ **\$440 million in sales tax on gasoline**—In addition to the General Fund appropriation, the Administration proposes diverting \$440 million of sales taxes on gasoline to this new fund for each of five years, beginning with 2000-01. In total, these sales taxes will provide \$2.2 billion towards the \$5.3 billion plan, and in combination with the \$1.5 billion General Fund appropriation, they provide \$3.7 billion towards the total plan.

To complete the funding for the plan, the Administration will propose additional resources from the General Fund totaling \$1.6 billion over the next four years. In addition to creating the Traffic Congestion Relief Plan and authorizing the diversion of sales tax revenue to it, the budget trailer bill will lay out the framework of the program, including:

- ▲ A list of projects eligible for support from the fund, along with a description of each project and the maximum amount of funds that will be committed to each project from the fund. (A list of these projects has been provided to the Legislature as part of the Finance Letter for the Department of Transportation.)
- ▲ Program parameters for the use of funds, broadly authorizing the California Transportation Commission to administer the plan.
- ▲ Statutory changes authorizing the State to allocate its Interregional Transportation Improvement Program funds in support of the plan.
- ▲ Extension of the State Transportation Improvement Program (STIP) to seven years from the current four, effective with the 2002 planning cycle to allow future-year funds to be committed to plan projects.
- ▲ Creation of a one-time \$500 million deferred maintenance program, with \$400 million for local streets and roads and \$100 million for the state highway system.

- ▲ Creation of a “swap” program so regions may trade hard-to-use federal dollars for General Fund dollars in the new fund, at a discounted exchange rate of 90 percent. This discount recognizes that regions can save 20 percent or more of the cost of a project by avoiding federal spending restrictions.
- ▲ Consistent with the January Governor’s Budget, ongoing transfer of non-Article XIX revenues from the State Highway Account to the Public Transportation Account to help support transit programs at both the state and local levels.

The May Revision also reflects the first year of funding and staffing for the Department of Transportation to implement projects under its responsibility in the Governor’s Transportation Congestion Relief Plan. The Administration proposes \$151.8 million and 612.3 personnel years to provide capital outlay support and planning staff to begin the delivery of projects in the plan.

Keeping Existing Projects Moving

In the last two years, California has received a significant increase in federal transportation funds, leading to additional projects programmed for funding in the STIP. These projects require staff support from the Department of Transportation for design, engineering, acquiring right of way, and environmental studies. The following augmentations are proposed to keep existing transportation projects moving quickly towards completion:

- ▲ \$90.1 million and 340.7 personnel years to deliver existing workload associated with the 1998 Revised State Transportation Improvement Program (STIP). The increased funding is necessary to provide capital outlay support resources for the delivery of the revised 1998 STIP and mid-cycle programming for the State Highway Operation and Protection Plan (SHOPP), to fund increased workload for mandated local tax measure project oversight, and to support increased administrative work activities related to the increase in capital outlay support workload.
- ▲ \$12 million and 56 personnel years to create a comprehensive skills development program, replacing the current minimal skills training classes offered to capital outlay support staff. Over the past four years, the department staff providing design and engineering services has grown by nearly 3,000 employees. Considering hiring proposed for 2000-01, nearly one-third of capital outlay support employees will have been on the job less than four years, and provision of job-specific skills training is a critical component in the timeliness of project delivery. This program will be evaluated after three years.
- ▲ \$10.3 million on a two-year limited-term basis—\$1.4 million for the Project Resourcing and Schedule Management System (PRSM) and \$8.9 million for a business process study. PRSM will implement a resource-scheduling tool to maximize effective use of the Department’s workforce and minimize project delays. The business process study will examine departmental activities from initiation of transportation projects through final construction to provide specific direction in implementing process and information technology improvements.

Improved Traffic Management

In addition to the projects proposed in the Traffic Congestion Relief Plan, the Administration proposes the following augmentations to improve traffic management operations and safety:

- ▲ \$12.1 million to automate the permit system that allows safe passage of oversized loads on the State Highway System. The new automation system will reduce the number of illegal loads traveling without permits by simplifying and accelerating the permit process. When

completed, the system will allow machine-readable permit applications to be submitted by fax or Internet connection. In return, the system will produce a completed permit and map detailing the approved route.

- ▲ \$2.3 million and 25.4 positions to improve the Department's scheduling of lane closures by expanding the District Traffic Management (DTM) program to all districts. The DTM program has been a pilot program in Los Angeles and the San Francisco Bay Area for the past two years. The program allows Caltrans to schedule lane closures for highway repair work at times that minimize the effect on motorists. The system also allows managers to remove crews from areas of temporary traffic congestion.
- ▲ \$2.1 million to maintain equipment within existing traffic management centers. Each center provides centralized command and control by integrating outside sensors such as ramp meters, loop detector and cameras into a common area to reduce traffic congestion, minimize the effects of accidents or road closures, and deploy necessary resources in the field efficiently.

Other Augmentation Issues

- ▲ The Administration recommends \$2 million to fund the following technical requests: (1) maintenance of a segment of I-710 transferred from the City of Long Beach to Caltrans (\$293,800), and (2) maintenance of pumps on the Century Freeway (I-105) transferred by Los Angeles to Caltrans (\$1.7 million).
- ▲ An increase of \$7.1 million in federal fund expenditure authority is proposed to fully capture all available TEA-21 funding for the State Planning and Research Program. Since 1991, the program funds have been used by state, regional and local agencies to plan necessary transportation improvements. If not obligated by Caltrans, these funds will be lost to other states.
- ▲ Recognizing the serious transportation safety problems experienced by farm workers, the Administration proposes an increase of \$2 million from state and \$2 million from federal funds in each of the next two years to purchase vans and buses for a pilot program providing transportation services to farm workers in the San Joaquin Valley.
- ▲ The Caltrans District 7 headquarters office building in Los Angeles requires \$1 million for special repairs to address critical fire, life and safety deficiencies. These repairs are necessary to maintain safe working conditions until a new district office building—which is in the planning stages—is constructed.

DEPARTMENT OF MOTOR VEHICLES

1999-00 *No Change*
2000-01 *\$4.8 million*

- ▲ The Administration proposes \$3.8 million for ongoing operations of the Internet vehicle registration project. This demonstration project is an important step forward in efforts to provide faster, more efficient services through "e-Government."
- ▲ The Department's three primary automation systems—vehicle registration, driver licensing, and occupational licensing—are critically overdue for replacement. The May Revision includes \$985,000 to continue reengineering the vehicle registration system and to expand that project to the driver license and occupational licensing systems. Using an alternative

procurement approach, the Department will contract with a systems integrator to plan the transition of these legacy systems to an integrated system that better supports the department's core business programs.

CALIFORNIA HIGHWAY PATROL

1999-00 *No Change*

2000-01 *\$4.4 million*

- ▲ The Administration proposes \$4.1 million for the California Highway Patrol (CHP) to provide dignitary protection and security during the Democratic National Convention in Los Angeles in August 2000. Of this, \$730,000 will fund dignitary protection for elected state officials and 21 governors from other states. The remaining \$3.4 million will fund equipment for loan to the Los Angeles Police Department (LAPD) for security at Staples Arena, and a contract with the LAPD to provide additional security as well as terrorism preparedness and prevention.
- ▲ The May Revision includes \$252,000 for the CHP to purchase equipment and vehicles to implement the Organized Automobile Fraud Interdiction Program established by AB 1050 (Chapter 885, Statutes of 1999).

EXPENDITURES

HEALTH AND HUMAN SERVICES AGENCY

May Revision requests of \$1.272.9 million and the April Finance Letter requests of \$31.4 million provide for a total increase of \$1,304.3 million over the Governor's Budget. Total General Fund expenditures proposed for Health and Human Services are now \$20.2 billion.

GOVERNOR'S INITIATIVES

Healthy Families/Child Health Care Expansion Initiative

Providing health care coverage to children remains a top priority for this Administration. Under this Administration, to date, more than 225,000 children have been enrolled in the Healthy Families Program (HFP). With the May Revision, the Administration proposes to ensure that every child in California eligible for HFP has access to coverage.

Additionally, the Administration proposes to eliminate the burdensome quarterly beneficiary reporting process for low-income working families in order to provide and continue coverage for working parents and their children through the Medi-Cal program.

These two efforts combined will expand funding to provide health care coverage to about 900,000 children in the Governor's 2000-01 Budget.

FIGURE HHS-1

Healthy Families Program (HFP) Enrollment

January 1999	50,000 children enrolled in HFP.
May 1999	100,000 children enrolled in HFP.
January 2000	200,000 children enrolled in HFP.
	Governor's 2000-01 Budget proposes funding to increase HFP enrollment to 370,000 children.
May 2000	279,000 children enrolled in HFP.
	Governor's May Revision proposes funding to increase enrollment to all 639,000 HFP-eligible children, and to provide Medi-Cal coverage to about 250,000 previously uninsured children.

Tobacco settlement monies enable the state to provide additional resources to further reduce the number of uninsured families and children in California. The May Revision includes statutory changes and a General Fund augmentation to expand health care coverage to additional Californians, \$178 million as follows:

- ▲ \$59.2 million to provide health care coverage for all 639,000 children estimated to be eligible for the Healthy Families Program (HFP) by June 30, 2001.
- ▲ \$3.5 million (in the Department of Health Services budget) to further support media efforts targeted to HFP-eligible children. This will bring total outreach spending for HFP and Medi-Cal for Children to \$37.8 million.

- ▲ Additionally, the May Revision proposes statutory changes to allow HFP health plans to assist families with the HFP/Medi-Cal for Children application process. This will be done in a manner which safeguards the target population from any potential conflicts of interest or marketing abuses. Allowing the plans to assist families known to them with the application process will help attain the goal of 100 percent program enrollment.
- ▲ \$115 million to eliminate, effective January 1, 2001, the requirement for Medi-Cal families to submit quarterly eligibility status reports. Many Medi-Cal families are discontinued simply because they fail to complete and return these quarterly reports. As a result of eliminating this unnecessary and burdensome paperwork, an approximate additional 250,000 children and 150,000 adults will retain coverage. The federally required annual redetermination of eligibility will remain in place, and families will continue to be responsible for immediately reporting any change in circumstances which might affect eligibility.
- ▲ Change statute to allow a 3-month disregard of Social Security cost-of-living-adjustment (COLA) income for Medi-Cal families. This will eliminate unnecessary interruption of eligibility for persons otherwise disqualified between January, when they receive the COLA, and April, when the federal poverty level increases.

Treatment and Prevention Initiative

Among women, breast cancer is the most commonly diagnosed cancer and the second leading cause of cancer death. Among men, prostate cancer is the second most commonly diagnosed cancer. While the State provides screening and research for these diseases, uninsured persons may not have adequate access to treatment. While low-income children currently have access to complete health assessments on a regular basis for the early detection and prevention of disease and disabilities, through the Child Health and Disability Prevention Program (CHDP), declining Proposition 99 revenues threaten the viability of CHDP. Given the availability of tobacco settlement funds, the Administration proposes the following initiatives to improve the health of California's uninsured:

- ▲ **Breast Cancer Treatment**—\$20 million General Fund to expand an existing non-profit breast cancer treatment program. As private foundation funding is declining and as the Administration recognizes the need for a comprehensive program, the May Revision quadruples the existing State funding level and provides for program expansion, including breast cancer treatment of an unlimited duration, increased services, including breast reconstruction and all services that meet the current standard of care. The program will be provided to individuals with incomes up to 200 percent of the federal poverty level.
- ▲ **Prostate Cancer Treatment**—\$10 million General Fund to provide prostate cancer treatment to men with incomes up to 200 percent of the federal poverty level. The department will contract with community-based organizations, private non-profit groups, or the University of California Medical Centers to provide the treatment.
- ▲ **Child Health and Disability Prevention**—\$60.3 million General Fund to backfill Child Health and Disability Prevention (CHDP) expenditures previously supported by Proposition 99 expenditures. The CHDP provides low-income children with complete health assessments on a regular basis for the early detection and prevention of disease and disabilities in children and youth.

Health and Human Services Provider Rate Initiative

Tobacco settlement monies enable the state to provide additional funding for rate increases for a wide range of health and human service providers. The May Revision includes augmentations totaling \$910.9 million (\$477.8 million General Fund) for these rate increases. The increases vary, with foster care programs receiving approximately 3 percent to reflect the increase in the California Necessities Index, to an average 10 percent for Medi-Cal providers. The General Fund amount included in the May Revision for these rate increases is outlined, by provider category, in the table below. The specific rate increases are discussed in more detail in the sections on the individual departments that follow.

FIGURE HHS-2

Provider Category	General Fund (\$ In millions)
Medi-Cal Long-Term Care	\$161.4
Medi-Cal Managed Care	66.9
Medi-Cal - All Other	157.0
Public Health	30.2
Developmental Services	40.7
Foster Care	11.5
In-Home Supportive Services (Non-Public Authority); Non-Contract	7.5
Drug and Alcohol Prevention	1.1
Rehabilitation	1.5
Total	\$447.8

Mental Health Initiative

In California, approximately 1.3 million adults have serious mental illness. Of those, about 600,000 suffer severe and persistent mental illness. Further, about 600,000 children and youth have serious mental illness with functional impairment. Of Californians needing mental health treatment, 36 percent of children and 42 percent of adults rely on public mental health care. However, 350,000 adults and 130,000 children receive minimal or no publicly funded mental health care. Within the criminal justice system, 120,000 mentally ill persons are jailed annually, and 18,000 inmates in California's prisons are seriously mentally ill. Currently, the State spends approximately \$2.9 billion on mental health services. This includes funding for the Department of Mental Health, State Hospitals, State and local correctional programs and law enforcement, Social Services programs and local mental health services.

Among the most critical needs are services and resources for the homeless mentally ill. In order to address the most significant need, the May Revision includes a \$101.4 million General Fund Mental Health Initiative. Pilot programs initiated last year have shown dramatic positive results in keeping homeless mentally ill off the streets, out of jails, and in treatment. To expand on these successful efforts, this Initiative includes the following:

- ▲ \$35.6 million in increased funds for each of the next three years for Integrated Services for Homeless Adults to actively seek out and provide treatment services to about 5,100 adults who are homeless or at-risk of criminal involvement and who do not request treatment. This is an expansion to the programs begun pursuant to Chapter 617, Statutes of 1999 (AB 34). In addition to this augmentation, the May Revision also includes \$6.9 million in federal Substance Abuse and Mental Health Services Administration block grant funds. These funds, combined with the \$20 million included in the Governor's Budget, provide \$62.5 million for integrated mental health services to the homeless.

- ▲ \$50 million, on a one-time basis, for the Adult Mentally Ill Offender Crime Reduction Program. This funding will address the specific needs of those who have been involved in the criminal justice system and the communities in which they reside. Grants will be awarded to counties on a competitive basis, to expand or establish a cost-effective continuum of graduated mental health responses. This continuum includes prevention and intervention services, and incarceration. The grants are intended to provide services designed to reduce recidivism among mentally ill offenders.
- ▲ \$15 million, on a one-time basis, for Supportive Housing Grants to provide about 1,500 additional housing units and services to assist residents in carrying out the routine activities of daily living. The homeless are less likely to obtain treatment than persons with stable living arrangements. Without treatment, behavior may become erratic, leading to incarceration or institutionalization. Obtaining a physical residence meets only a portion of the needs of the homeless mentally ill. Through supportive housing programs, the services necessary to stabilize behavior are provided, improving the opportunity for the resident to live independently.
- ▲ \$812,000 to continue Medi-Cal eligibility to age 21 for youth in foster care on their 18th birthday. Many children who are in foster care as they reach the age of majority, leave foster care with continuing emotional and mental health needs. These youth are more likely to have difficulty adjusting to adulthood and independence. This Initiative includes funding for the continuation of Medi-Cal eligibility to age 21 for those who are in foster care on their 18th birthday and provides medical, dental, and counseling services for these youth as they transition from foster care to productive independent adult life.

In-Home Supportive Services Initiative

The May Revision includes an additional \$100 million from the General Fund for the In-Home Supportive Services Program in order to improve the quality of provider services and strengthen the recruitment and retention of providers in both the Public Authority (PA) and the contract modes of service. This \$100 million augmentation will enhance the Administration's Aging With Dignity Initiative and includes the following components:

- ▲ \$56.4 million for the State share-of-cost for PA provider wages up to \$7.50 per hour in 2000-01 as the first part of a five-year plan, which includes a \$1.00 per year increase in wages up to \$11.50 per hour in the fifth year subject to specific General Fund revenue targets.
- ▲ \$34.2 million for the State share-of-cost for up to \$0.60 per hour for PA provider health benefits subject to specific General Fund revenue targets.
- ▲ \$3.3 million for a 10 percent increase in the current Maximum Allowable Contract Rate for that mode of service.
- ▲ \$6.1 million for expansion of the contract mode.

Child Welfare Services (CWS)/ Foster Care Initiative

The May Revision includes a \$99.9 million (\$60 million General Fund) augmentation for a major initiative in the area of services to children. This initiative is designed to give counties concrete assistance with their adoptions and CWS workloads as well as provide improved benefits for foster care children and providers. Specific components of this initiative are outlined in Figure HHS-3.

FIGURE HHS-3

Initiative Component	General Fund (\$ in millions)	Total Fund (\$ in millions)
CWS Social Workers —Provide additional social workers on an interim basis, pending an evaluation on potential redesigns of the CWS system and budgeting methodology based on recommendations from the CWS Stakeholders Group.	\$34.3	\$58.1
CWS Stakeholders Group —Convene stakeholders to review CWS program documentation and recommend ways to improve and integrate CWS with other services.	0.5	0.8
Adoptions Social Workers —Reduce the backlog of children waiting for finalized adoptions.	12.7 (one-time)	22.0 (one-time)
Clothing Allowance for Foster Children —Develop a standardized clothing allowance of \$100 per child.	4.4	7.7
Kinship Emergency Fund —Establish a Kinship Fund on a pilot basis to support relative caregivers by providing one-time assistance and short-term support services.	1.0	1.7
Stipends for Emancipated Youth —Provide stipends for affordable housing; college textbooks; employment searches; emergency personal needs; transportation.	3.5	3.5
Live Scan Technology for County Welfare Departments —Purchase and install 100 Live Scan machines for the purposes of processing fingerprint clearances for relative providers on-site.	2.9 (one-time) 0.7 (ongoing)	4.9 (one-time) 1.2 (ongoing)

TOBACCO SETTLEMENT FUNDS AND OVERALL HEALTH CARE EXPENDITURES

Targeting Tobacco Settlement Funds for Health Care Expansion

The 1998 master tobacco settlement requires tobacco companies to make payments to the states totaling an estimated \$206 billion nationally through 2025. California is projected to receive an estimated \$25 billion over 25 years. In 2000-01, the State expects to receive approximately \$389 million.

The Governor's Budget targeted the State's share of the tobacco settlement funds for expansion of health services in California, particularly aimed at providing additional health care coverage for children through the Healthy Families Program. Additionally, the Administration proposed using tobacco settlement funds to expand and strengthen the smoking cessation components of various health care programs, including the Women, Infants and Children Program and Maternal and Child Health Programs.

The May Revision uses the state's share of tobacco settlement funds entirely for health care purposes, and along with additional General Fund revenues, expands health services to children and low-income and uninsured adults. Specifically, the tobacco settlement funds and additional General Fund monies will increase the number of children enrolled in the Healthy Families Program to all 639,000 children eligible for the program; allow 250,000 children and 140,000 adults in working families to be covered under the Medi-Cal program; fully assume support of the Child Health and Disability Prevention Program from declining Proposition 99 funds; expand breast cancer treatment programs for low-income women and men; and increase Medi-Cal and other health program provider rates.

FIGURE HHS-4

Description	General Fund (\$ In millions)
Health Care Expansion	
Children's Healthy Families	\$63
Elimination of Medi-Cal Eligibility Quarterly Reporting	115
Prevention and Treatment Initiatives	
Child Health and Disability Prevention Program	60
Breast Cancer Treatment Initiative	20
Prostate Cancer Treatment Initiative	10
Health Program Provider Rate Increases	
Medi-Cal	385
Health Services Programs, including Public Health and Developmental Services	72
Total General Fund Change	\$725

Continuing the Anti-Smoking Campaign

The Administration intends to use settlement funds and other available state resources to continue the state's anti-smoking campaign, particularly among teens and pregnant women. In addition to the Proposition 99 media campaign base of approximately \$20 million, the Governor's Budget included an increase of more than \$25 million, bringing the anti-smoking media campaign to \$45.3 million. The May Revision includes an additional \$10 million (\$8.9 million General Fund) augmentation, bringing the total anti-smoking media campaign to \$55.3 million. In addition, the May Revision includes new funding for smoking-cessation programs at all Women, Infants and Children service sites, and in the Adolescent Family Life and Black Infant Health programs.

DEPARTMENT OF HEALTH SERVICES

Medi-Cal

1999-00	-\$110.0 million
2000-01	\$460.1 million

Current Year

The May Revision includes total Medi-Cal expenditures of \$22.2 billion (\$8.1 billion General Fund), a decrease of \$232.5 million from the January Governor's Budget. General Fund expenditures for Medi-Cal have decreased by \$110 million, or 1.3 percent.

The number of persons projected to be eligible for Medi-Cal in 1999-00 is expected to decrease by 63,700 to 5,128,700 eligibles. This represents a decrease of about 1.2 percent below the level projected in the January Budget. However, the revised caseload is still 1.4 percent above the 1998-99 caseload.

The net General Fund decrease includes the following significant adjustments:

- ▲ \$29.7 million in estimated increased savings from the Medi-Cal anti-fraud initiative.
- ▲ \$22.5 million in decreased expenditures for medical supplies, possibly due to deterrence of fraud.
- ▲ \$10.3 million in additional costs for the Family Planning Access, Care and Treatment program (family planning services) due primarily to increased utilization and costs.
- ▲ \$43.1 million in increased savings due to higher-than-estimated drug rebates.
- ▲ \$25 million in estimated savings due to a variety of other increases and decreases affecting the Medi-Cal program.

Budget Year

The May Revision includes total Medi-Cal expenditures of \$24 billion (\$9.2 billion General Fund), an increase of \$969.3 million (\$460.1 million General Fund) over the January Governor's Budget. This increase is partially the result of increased reimbursement to Medi-Cal providers, including long-term care and managed care providers. However, total General Fund savings of \$61.8 million due to intensive anti-fraud efforts will somewhat offset these costs.

The average monthly Medi-Cal caseload is expected to increase by 165,300 eligible beneficiaries to 5,454,500 eligibles. This represents an increase of 3.1 percent above the January Budget. Although the number of people qualified for Medi-Cal through their eligibility for the California Work Opportunity and Responsibility to Kids (CalWORKs) program has been declining, this declining population has been more than offset by Medi-Cal expansions to include more low-income two-parent families, seniors, and the working disabled.

The net General Fund increase includes the following significant adjustments:

- ▲ \$385.3 million in increased costs to provide an approximate average 10 percent rate increase for long-term care and other Medi-Cal providers and to provide upper-payment limit rate increases for managed care providers.

- ▲ \$115 million in increased costs to eliminate the requirement for Medi-Cal families to provide quarterly status reports, effective January 1, 2001.
- ▲ \$49.6 million in additional savings due to Medi-Cal fraud prevention efforts.
- ▲ \$45.2 million in additional savings due to increased drug rebates.
- ▲ \$25 million in increased costs to further reduce the State administrative fee paid by disproportionate share hospitals, bringing the total reduction to \$55 million.
- ▲ \$29.6 million in increased costs due to a variety of other smaller increases and decreases which impact the Medi-Cal program.

Cigarette and Tobacco Products Surtax Fund—Proposition 99

1999-00 *-\$5.3 million (CTPSF)*

2000-01 *-\$53.1 million (CTPSF)*

Available Proposition 99 resources for the current year and budget year combined are estimated to be approximately \$67 million lower than projected in January, due to the following factors:

- ▲ Proposition 99 revenues for the current and budget years combined are \$51 million less than the Governor's Budget proposal, as follows: \$10.2 million Health Education Account, \$17.8 million Hospital Services Account, \$5.1 million Physician Services Account, \$2.6 million Research Account, \$2.6 million Public Resources Account, and \$12.7 million Unallocated Account.
- ▲ In addition, increased current and budget year caseload in the Access for Infants and Mothers (AIM) Program, the Children's Treatment Program (CTP), and the Child Health and Disability Prevention (CHDP) Program will cost an additional \$16.3 million.

The May Revision allocates Cigarette and Tobacco Products Surtax Fund resources using the following assumptions:

- ▲ Continues funding for initiatives proposed in January, including emergency room physician services and research funds for the California Cancer Registry.
- ▲ Shelters from 1999-00 reductions "protected" caseload programs, including the Access for Infants and Mothers program, the Breast Cancer Early Detection Program, and clinic grants.
- ▲ Fully funds CHDP caseload in 1999-00.
- ▲ Spends an additional \$9.5 million from the Health Education Account litigation reserve in 2000-01 to maintain base funding in the Competitive Grants, Local Lead Agency, and Department of Education programs.

Current Year

In order to align expenditures with available resources, reductions are proposed to the following programs: Department of Health Services administration (\$0.1 million), California Healthcare for Indigents (\$10.2 million), and Resources Agency departments (\$0.4 million). Combined with an increase of \$0.9 million for the CHDP entitlement caseload, \$4.3 million for the AIM program, and \$0.2 million for the CTP, the net 1999-00 reduction is \$5.3 million.

Budget Year

The influx of tobacco settlements funds has enabled the administration to fund the entire CHDP caseload with General Fund in lieu of the declining Proposition 99 funds. This shifts \$60.3 million of previously funded Proposition 99 CHDP expenditures to the General Fund. In addition, the 2000-01 May Revision proposes to fund \$10.9 million in increased caseload. The May Revision also allocates \$0.5 million to the CTP to provide for payment rates in this program equivalent to those of the Medi-Cal program. Finally, the 2000-01 plan allocates reductions of \$2.3 million to the University of California and \$1.9 million to Resources Agency departments to align expenditures with available resources, for a net 2000-01 reduction of \$53.1 million.

The \$67 million total decline in available Proposition 99 resources is prorated as follows:

- ▲ 1999-00 expenditure reductions of \$10.7 million.
- ▲ 2000-01 expenditure reductions of \$64 million.
- ▲ Net increases of \$7.7 million in fund balance and reserves for 1999-00 and 2000-01.

SMOKING CESSATION SERVICES

The May Revision includes \$10 million (\$8.9 million General Fund) to improve the health of adults and children and decrease the number of low birth weight infants born in California by providing smoking cessation services to participants in the Women, Infants and Children (WIC) program, the Adolescent Family Life and Black Infant Health programs.

Public Health

1999-00	\$4.6 million
2000-01	\$120.0 million

CASELOAD PROGRAMS**Current Year**

The May Revision includes \$4.6 million, or a 4.5 percent increase over the \$102 million provided in the Governor's January Budget, for increased caseload and health care costs in the California Children's Services (CCS) program, CHDP, and Genetically Handicapped Persons Program (GHPP).

Budget Year

The May Revision includes \$5.1 million, or a 4.8 percent increase over the \$106 million provided in the Governor's January Budget, for increased caseload and health care costs in the CCS, CHPP, and GHPP.

RATE INCREASE

The May Revision includes \$30.2 million to provide various rate increases for the CHDP, CCS, the CHDP, the Adolescent Family Life Program, and Primary Care Clinics.

HIV/AIDS Drug Resistance Testing

The May Revision includes \$2.4 million, including \$828,000 in additional federal funds, to provide HIV/AIDS drug resistance testing. Resistance testing assists in determining the most effective drug therapies for individuals with HIV/AIDS, and increases the quality of life for those stricken with HIV/AIDS. In addition, resistance testing will reduce drug costs in the future. The program will operate as a component of the AIDS Drug Assistance Program.

Safe Drinking Water Program

The May Revision reduces \$15.4 million General Fund for the Safe Drinking Water Program. In its place, the May Revision includes \$129.6 million (\$35 million Drinking Water Bond Measure and \$94.6 million federal funds) to implement the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13) to provide technical assistance and loans and grants to local water agencies for infrastructure projects.

MANAGED RISK MEDICAL INSURANCE BOARD

1999-00 \$4.2 million

2000-01 \$58.7 million

Healthy Families Program

Current Year

The May Revision includes an increase of \$4.7 million for increased HFP administrative costs. This will provide sufficient funding to repay the federal government for prior year expenditures exceeding the 10 percent federal limit and to meet current year increased administrative costs.

Access for Infants and Mothers Program

The May Revision for the program also includes an increase of \$7 million (Perinatal Insurance Fund), in part, to fund increased monthly enrollment above the amount assumed in the Governor's Budget.

Healthy Families Program

Budget Year

The May Revision includes an increase of \$59.2 million to provide HFP health care coverage to all of the projected 639,000 children estimated to be eligible for the program by June 30, 2001. The May Revision also includes an augmentation of \$3.5 million, budgeted in the Department of Health Services, to increase media advertising targeted to families with children eligible for the HFP.

Access for Infants and Mothers Program

The Governor's January Budget assumed a decrease in AIM program enrollment in the budget year, as a result of the February 2000 implementation of Medi-Cal income deductions to determine income eligibility for the program. Although approximately 20 percent of all AIM applicants are being referred to Medi-Cal, AIM enrollment continues to increase rather than decrease. It is now estimated that approximately 388 additional women per month will enroll in the program in 2000-01, up from 315 women projected in January. The May Revision includes an additional \$10.3 million (Perinatal Insurance Fund) to provide benefits for these women and their infant children.

DEPARTMENT OF DEVELOPMENTAL SERVICES

1999-00 \$25.1 million

2000-01 \$149.5 million

Developmental Centers

Current Year

The May Revision includes an increase of \$25.1 million and a commensurate decrease in federal funds resulting from federal funding eligibility certification status of Agnews and portions of Porterville Developmental Centers (DCS).

Budget Year

The DC population is projected to increase by 26 clients above the 3,818 included in the Governor's January Budget, at a total cost of \$5.1 million (-\$1.9 million General Fund) and 104.5 positions.

The May Revision also includes one-time expenditures of \$19.3 million to complete infrastructure renovations in the heating, cooling and water systems and \$17.8 million to complete all Americans with Disabilities Act remodeling projects at the five DCs.

In addition, the May Revision includes an increase of \$44.7 million and a commensurate decrease in federal funds resulting from federal funding eligibility certification issues at Agnews and portions of Porterville Developmental Centers and delays in the certification of the Sierra Vista Facility. The Department of Health Services is actively working with the Department of Developmental Services and the federal Health Care Financing Administration to develop and implement corrective action plans to remedy the certification problems. This cooperative effort is expected to result in the recertification of Agnews Developmental Center by October 1, 2000.

The net effect of these revisions to the DC budgets is a total funding increase of \$86.6 million (\$79.9 General Fund) and 119.8 positions.

Regional Centers

The Regional Center (RC) budget is projected to increase by \$35.8 million. In addition to standard population adjustments, the estimate updates the number of Regional Centers projected to be recertified to receive federal funding from 3 to 7 Regional Centers under the Home and Community-Based Services Waiver. While additional centers are being recertified, the certification dates have been delayed, thus resulting in General Fund cost increases. Further, changes in caseload combined with a greater number of non-federally eligible clients result in additional General Fund costs.

Rate Increases

The May Revision also includes \$66.3 million (\$33.8 million General Fund and \$32.5 million reimbursements) to provide rate increases in salaries and wages for shift nurses and workers in community-based adult day programs, infant development programs and in-home respite service programs, and a 3 percent increase for supported living service and community care facility providers.

DEPARTMENT OF REHABILITATION

1999-00	\$10.8 million
2000-01	\$37.2 million

Current Year

The May Revision reflects cost increases due to an increase of approximately 160 clients in the Work Activity Program (WAP) and Supported Employment Program (SEP) and to statutory changes in the SEP services payment method. The General Fund also must offset a reduction in Home and Community-Based Waiver reimbursements due to a reduction in eligible clients.

Budget Year

The May Revision reflects cost increases resulting from an increase of approximately 210 clients in the WAP and SEP and from payment method changes, as well as reduced Home and Community-Based Waiver reimbursements. The May Revision also includes a statutory WAP rate increase of 4.4 percent and a discretionary SEP rate increase of 3 percent in the price of direct care services. The department will be undertaking administrative actions to better manage the unintended cost increases that develop under the new SEP payment method, and urgency legislation will be introduced to assist the department in that effort.

Americans with Disabilities Act Compliance

The May Revision establishes a new statewide funding effort for removing architectural barriers to the disabled. While funding is proposed to be allocated by the Department of Finance, the Department of Rehabilitation will take the lead in determining which projects will qualify for this special program. The May Revision contains \$60 million (\$20 million General Fund) for this program which is in addition to specific Americans With Disabilities Act special repair projects approved in other departments.

DEPARTMENT OF MENTAL HEALTH

1999-00	\$0.4 million
2000-01	\$65.9 million

Current Year

The State Hospital Population is expected to remain unchanged from the January projection of 4,236 patients.

The May Revision includes an increase of \$356,000 General Fund for additional mentally disordered offender evaluations due to higher referral rates by the Department of Corrections. In addition, \$20.9 million (reimbursements) for Early and Periodic Screening, Diagnosis and Treatment services is added for an increase in the number of children receiving mental health services under this program.

Budget Year

The State Hospital population is projected to remain unchanged from the Governor's Budget estimate of 4,421 patients. Although the total number of patients remains unchanged, the number of patients who are incompetent to stand trial will increase by 18, and the sexually violent predator patients will decrease by 18.

In order to address increased need for mental health services, the May Revision includes an augmentation of \$50.6 million General Fund in the department for a new Mental Health Initiative, which includes the following components:

- ▲ \$35.6 million for each of the next three years for Integrated Services for Homeless Adults to provide resources to actively seek out and provide treatment services to about 5,100 adults who are homeless or at-risk of criminal involvement and do not request treatment.
- ▲ \$15 million, on a one-time basis, for Supportive Housing Grants to provide about 1,500 additional housing units and services to assist residents in carrying out the routine activities of daily living.

In addition to the Mental Health Initiative, \$11 million in new federal Substance Abuse and Mental Health Services Administration funds are allocated as follows:

- ▲ \$6.9 million for Integrated Services for Homeless Adults. With this augmentation, the Budget provides a total of \$62.5 million to provide these services to about 7,500 adults under this program.
- ▲ \$2 million for an Older Adult System of Care to target mental health services to adults age 60 and over. Many older adults with mental illness do not receive proper diagnosis and treatment because it is assumed their conditions are due to old age. This program would assist older adults with mental illness to receive the level of care they need.
- ▲ \$2.1 million for the Youth Development and Crime Prevention Program to provide mental health intervention and treatment services to seriously emotionally disturbed adolescents.

The May Revision also includes \$9.4 million (\$8 million General Fund) for changes in mental health managed care. Adjustments include \$8 million for an increase in the mental health managed care eligible population and a decrease in the Consumer Price Index, and an increase of \$1.4 million reimbursements for San Mateo County to cover higher than expected costs under the county's managed care pharmacy and lab demonstration project and to pay the State's portion of a state-county risk-sharing arrangement.

As a result of an ongoing shortage of psychiatrists, the May Revision adds an additional \$6.4 million (\$4.3 million General Fund) for retention and recruitment bonuses to encourage psychiatrists to remain at State Hospitals and to assist the department in the recruitment of psychiatrists.

Training for psychiatric technicians at Napa and Atascadero State Hospitals will be expanded at a cost of \$2.8 million General Fund. The purpose of this expansion is to increase the pool of candidates available to fill existing and anticipated psychiatric technician and nursing vacancies.

Due to an increase in the number of Medi-Cal eligible children receiving mental health services, \$21.5 million (reimbursements) is included in the May Revision for the Early and Periodic Screening, Diagnosis and Treatment program.

Evaluation costs for Mentally Disordered Offenders are projected to increase by \$1 million as a result of referrals by the California Department of Corrections (CDC). An estimated 350 evaluations per month are anticipated. This estimate is 130 evaluations per month above the January projection of 220 monthly evaluations.

In minor funding shifts, State Hospitals are being decreased by \$0.7 million General Fund and increased by \$0.7 million reimbursements to support higher costs related to increased acuity of county patients in State Hospitals.

Due to a lower than expected demand for mental health services, the May Revision includes a decrease of \$11.1 million in reimbursements for the HFP.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

1999-00	<i>No Change</i>
2000-01	<i>\$1.1 million</i>

Current Year

In a technical adjustment, the number of clients being served in 1999-00 decreased from 331,000 to 293,200. A programming error, now corrected, caused some clients who had been discharged from programs to continue to be erroneously included in the caseload counts.

Budget Year

The number of clients projected to be served in 2000-01 decreased from 331,000 to 293,200 as a result of the technical programming error described above.

The May Revision includes \$2.8 million (reimbursements) from the CDC to expand drug and alcohol treatment services to parolees. These funds will provide services to an additional 1,166 parolees and fund the associated increase in related administrative activities.

The May Revision includes \$4.5 million in new federal Substance Abuse Prevention and Treatment (SAPT) block grant funds for a new Youth Development and Crime Prevention program to expand local substance abuse treatment, recovery, and prevention services for youth.

Due to the timing of the availability of federal funds and the time required to finalize contracts for services, \$20.5 million in unexpended 1999-00 SAPT funds and \$500,000 in unexpended federal Safe and Drug Free Schools and Communities funds are carried over to 2000-01 for county services.

Finally, the Drug Medi-Cal program is being increased by \$2.3 million (\$1.1 million General Fund) for a rate increase to Drug Medi-Cal service providers. This cost-of-living rate increase is 3 percent and approximates the latest California Necessities Index.

DEPARTMENT OF SOCIAL SERVICES

1999-00	<i>\$11.3 million</i>
2000-01	<i>\$370.8 million</i>

CalWORKs

The 1999-00 average monthly CalWORKs caseload of 580,000 represents a decrease of 9.6 percent from 1998-99. For 2000-01, the caseload is expected to be 549,000, or 8,000 below the January Budget projection and a 5.3 percent decrease from the 1999-00 projection.

The May Revision continues to meet, but not exceed, the federally-required \$2.9 billion combined State and county maintenance-of-effort (MOE) requirement for 1999-00. Total CalWORKs-related expenditures are estimated to be \$7.2 billion, including child care transfer amounts for the California Department of Education (CDE) and county expenditures. For 2000-01, the MOE will be met at the reduced \$2.7 billion level, and total CalWORKs-related expenditures are anticipated to be \$7 billion.

Major General Fund and federal Temporary Assistance for Needy Families (TANF) Block Grant changes proposed for 1999-00 include:

- ▲ An \$85.7 million decrease in assistance payments due to lower than projected caseload.

- ▲ A \$45.5 million increase due to higher than projected county spending for CalWORKs employment services.

Major changes proposed for 2000-01 include:

- ▲ A \$170.5 million decrease in assistance payments to CalWORKs recipients due to a lower cost-of-living index and lower than projected caseload. The total October 2000 COLA costs \$86.8 million.
- ▲ A \$242.5 million increase for basic CalWORKs employment services due to implementation of a cost-based budgeting methodology for employment services pursuant to Chapter 147, Statutes of 1999. These services include assessment and employment, community services employment costs, domestic violence services, transportation assistance, ancillary services specifically required for employment or education, and job retention.
- ▲ \$339.8 million to establish a TANF Block Grant reserve for contingencies. Of this, \$294.3 million is proposed to be available for unanticipated needs in any Department of Social Services (DSS) program for which TANF funds are appropriated, including CalWORKs benefit, employment services, and county administration costs. In addition, the funds are proposed to be used to pay prior year CalWORKs county performance incentives earned by counties that have encumbered the incentive funds already allocated to them from prior years. The remaining \$45.5 million would not be eligible for allocation as incentives.

CalWORKs Child Care

The May Revision reflects an increase of \$41.8 million to fund the estimated need for child care administered by DSS in 2000-01. The increase primarily is due to increases both in caseload and the average cost per case. The CalWORKs-related child care administered by CDE is projected to be \$88.7 million below the level assumed in January. This decline is due both to a revised estimate of the two-parent family child care utilization rate and a reduction in the proportion of families projected to transfer from DSS-administered child care to CDE-administered child care. However, the child care reserve is increased by \$42.6 million to assure that sufficient funds are available if, due to lack of statewide data for Stage II costs, the child care need might have been underestimated.

Substance Abuse Prevention

For 2000-01, the May Revision includes a \$2 million General Fund augmentation to establish pilot programs that will provide outpatient drug and alcohol services to low-income women.

Supplemental Security Income/State Supplementary Payment Program

Total General Fund expenditures for Supplemental Security Income/State Supplementary Payment (SSI/SSP) are \$2.5 billion in 1999-00 and \$2.6 billion in 2000-01, which represents increases over the January estimates of \$28.9 million in the current year and \$28.3 million in the budget year. Caseload for the SSI/SSP Program is projected at 1,063,000 in 1999-00, and 1,094,000 recipients in 2000-01.

For 2000-01, the May Revision includes a reduction of \$11.9 million General Fund to provide a 2.96 percent COLA for SSI/SSP recipients, based on the California Necessities Index. The lower General Fund amount needed for the COLA reflects an increase in the federal inflation factor, which determines the federal share of the program. For the Cash Assistance Program for

Immigrants (CAPI), higher than expected caseload will result in General Fund increases of \$26.8 million in the current year and \$35.4 million in the budget year. Average monthly caseload for the CAPI is projected at 12,000 recipients in 1999-00 and 13,800 recipients in 2000-01.

In-Home Supportive Services Program

General Fund expenditures for the In-Home Supportive Services program are above the level reflected in January by \$22.9 million in the current year and by \$149.5 million in the budget year. Caseload is projected to be 231,000 recipients in 1999-00 and 243,000 recipients in 2000-01.

Significant increases in total General Fund expenditures for 2000-01 include \$17.8 million for baseline caseload changes, \$6.3 million to offset the same level of reduction in Title XX federal funding, and \$9.2 million due to a caseload shift from the Personal Care Services Program to the State-funded Residual program. An increase of \$100 million is provided for the State share-of-cost for public authority provider wage and benefit increases as well as an increase for the contract mode of service for a rate increase and service expansion. The May Revision also includes \$7.5 million for the State share-of-cost for a 3 percent increase in wages for non-public authority providers.

Child Welfare Services

The May Revision includes implementations for Child Welfare Services (CWS) in 2000-01 pursuant to the CWS/Foster Care Initiative

Local assistance program expenditures are above the level reflected in the Governor's Budget by \$1.1 million General Fund in the current year and by \$82.2 million in the budget year. Total (CWS) caseload is projected at 188,300 children in 1999-00 and 189,000 children in 2000-01.

The May Revision continues to include \$40 million General Fund for Emergency Workload Relief and a separate \$34.3 million General Fund to maintain the baseline CWS program at the level proposed in the Governor's Budget, pending the development and implementation of program modifications based on recommendations from the CWS Stakeholders Group.

Major General Fund changes for the budget year include an increase of \$35.1 million primarily attributable to increased unit costs per social worker combined with reduced savings associated with delayed implementation of the Kinship Guardianship Assistance Program (Kin-GAP) and revised assumptions regarding participation rates.

Foster Care

While the CWS/Foster Care Initiative provides augmentations for 2000-01, baseline program expenditures are below the level reflected in the Governor's Budget by \$16.4 million General Fund in the current year and by \$1.5 million in the budget year. Total foster care caseload is projected at 86,700 children in 1999-00 and 88,200 children in 2000-01.

Major changes for the current year include:

- ▲ A savings of \$7.8 million based on fewer counties participating in the Wrap-Around Services Pilot.
- ▲ A net savings of \$3.1 million, reflecting reduced savings due to delayed Kin-GAP implementation offset by increased costs associated with revised assumptions regarding participation rates.

- ▲ A savings of \$2.7 million attributable to slower than anticipated caseload growth.

Major changes for the budget year include:

- ▲ An increase of \$9.4 million due to delayed Kin-GAP implementation and revised assumptions regarding participation rates.
- ▲ An increase of \$11.5 million to fund a 2.96 percent COLA for foster care providers and other providers whose rates are adjusted correspondingly, based on the California Necessities Index.
- ▲ A decrease of \$13.8 million due to fewer counties participating in the Wrap-Around Services Pilot.

Additionally, the Medi-Cal budget includes \$812,000 to continue Medi-Cal eligibility to age 21 for youth in foster care on their 18th birthday.

Adoptions Program

Total local assistance program expenditures for 2000-01 are \$22.9 million (\$13 million General Fund) above the level reflected in the Governor's Budget, reflecting total expenditures of \$98.8 million (\$55.2 million General Fund).

DEPARTMENT OF CHILD SUPPORT SERVICES

1999-00	No Change
2000-01	\$12.7 million

Current Year

Local assistance costs for the Child Support Program continue to be budgeted within the DDS through 1999-00.

Budget Year

May Revision requests of \$18.5 million (\$12.7 million General Fund) in conjunction with April Finance Letter requests of -\$15.5 million (-\$5.3 million General Fund) provide for a total increase of \$3.1 million (\$7.5 million General Fund) over the Governor's Budget. The primary change proposed in the May Revision is an increase of \$16.3 million (\$14.4 million General Fund) for Child Support Administration. This reflects increased costs for transition and enhancement activities to ensure the continued viability of existing local child support automation systems until the development of the statewide system. These costs are based on county-specific assessments conducted under the procedures set forth in Chapter 480, Statutes of 1999. There are also increased costs associated with local child support agency transition activities and offsetting savings from delayed implementation of the State-Only Locate and Enforcement Program.

DEPARTMENT OF AGING

1999-00	No Change
2000-01	\$0.4 million

The May Revision includes \$790,000 (\$384,000 General Fund) for staff activities associated with growth in the number of Adult Day Health Care centers.

RESOURCES AND ENVIRONMENTAL PROTECTION

GOVERNOR'S INITIATIVES

CALFED

1999-00	<i>No Change</i>
2000-01	<i>\$125 million</i>

The CALFED program is a cooperative interagency effort involving 15 state and federal agencies with management and regulatory responsibilities in the San Francisco/San Joaquin Delta Estuary. The purpose of the program is to develop and implement a long-term comprehensive plan that will restore ecological health and improve water management for beneficial uses of the Bay-Delta system. CALFED is expected to adopt a Record of Decision in 2000 that will establish an intermediate and long-term strategy for management of water in the Bay-Delta system. The May Revision includes \$125 million to fund activities consistent with the Record of Decision. Allocation of those funds will focus on establishment of an environmental water account (which will acquire water for the protection of endangered fish and wildlife), protection of watersheds and aggressive water conservation measures.

Urban Cleanup Initiative (Brownfields)

1999-00	<i>No Change</i>
2000-01	<i>\$125 million</i>

The May Revision includes \$125 million in the Department of Toxic Substance Control for the cleanup and redevelopment of contaminated properties throughout the state. The properties, generally located in urban areas, are abandoned, idled, or underused industrial and commercial facilities where expansion or redevelopment is complicated by real or perceived environmental contamination. There are at least 4,000 such properties in California and some estimate that there may be as many as 120,000.

The funds will be used to:

- ▲ Provide technical assistance to land owners and developers to determine the condition of known or suspected contaminated properties
- ▲ Provide loans to schools, developers and local governments to clean up contaminated sites
- ▲ Establish affordable liability and cost-cap insurance for redevelopment projects

This program will stimulate private and community investment in cleanup and redevelopment statewide. In addition to improving the economy of the affected areas, the cleanup and redevelopment efforts will reduce the propensity for sprawl by encouraging in-fill development.

Diesel Emissions Reduction Program

1999-00	<i>No Change</i>
2000-01	<i>\$50 million</i>

The May Revision includes \$50 million to reduce emissions from diesel engines through the Carl Moyer Program. The Air Resources Board will use \$45 million to provide grants to

individuals or entities for projects that reduce emissions from diesel trucks and equipment, including agricultural vehicles, below the levels required under existing regulations. The Energy Resources Conservation and Development Commission will use \$5 million to provide grants for advanced technology projects and the development of an alternative fuels infrastructure. It is estimated that this funding will reduce emissions by approximately six to eight tons per day, which is the equivalent of removing 4,800 to 6,400 diesel trucks from California roads per year.

Land Conservation Matching Grant Program

1999-00	<i>No change</i>
2000-01	<i>\$75 million</i>

The May Revision includes \$75 million (\$54 million in the Wildlife Conservation Board and \$21 million in the Coastal Conservancy) for matching grants for the purchase of parks and open space preserves, and for the purchase and restoration of wildlife habitat. The Board will provide grants to private, federal and local agencies that will match the state's share of funding with non-state funds on at least a one-for-one basis. The leverage effect of this matching grant program will result in at least \$150 million to preserve precious California lands.

Park Fee Reduction

1999-00	<i>No Change</i>
2000-01	<i>\$36.6 million</i>

The Governor has directed the Department of Parks and Recreation to reduce its fees by approximately one-half so that state parks are accessible to all Californians and their families. To enable the department to carry out this fee reduction, the May Revision includes funding to backfill the department's loss of fee revenue (\$26 million) and hire the additional staff (\$10.6 million) necessary to assist with the expected increase in visitation at state parks.

NEIGHBORHOOD AND STATE PARKS

1999-00	<i>No Change</i>
2000-01	<i>\$674.3 million</i>

In March, the voters approved Proposition 12, an act authorizing \$2.1 billion of general obligation bonds for the acquisition, development and protection of recreational, cultural, and natural areas. The May Revision includes \$674.3 million from those bonds to purchase and restore local and state park lands and sensitive wildlife habitat. The majority of that amount is provided to the Department of Parks and Recreation and various state conservancies for land acquisitions and capital projects to be determined by those agencies consistent with their statutory missions. However, the May Revision also targets several high-priority projects for specific appropriation. Included among those are:

- ▲ Acquisition of properties in the Baldwin Hills
- ▲ Acquisition of the Lower Topanga Canyon to link the Topanga State Park with Topanga State Beach and complete a mountains-to-sea park
- ▲ Rehabilitation of Bolsa Chica State Beach in the City of Huntington Beach
- ▲ Acquisitions in the Mount Hamilton area for additions to Henry C. Coe State Park
- ▲ Additions to Folsom Lake State Recreation Area, Montana de Oro State Park, Malibu Creek State Park and Leo Carrillo State Beach

Los Angeles River Parkway

The May Revision includes \$83.5 million to develop a broad range of local urban parks in the Los Angeles area, with the Los Angeles River as the thread linking these new parks. Funding is also provided to begin the establishment of a new State park along the Los Angeles River. Funding for the Los Angeles River Parkway comes from a combination of Proposition 12 park bonds and Proposition 13 water bonds.

CALIFORNIA'S WATER SUPPLY

1999-00	<i>No change</i>
2000-01	\$763.3 million

In March, the voters approved Proposition 13, an act that authorizes nearly \$2 billion of general obligation bonds to make our drinking water safe, reduce water pollution, improve flood protection and increase our water supply. The May Revision includes \$763.3 million from those bonds to protect and manage California's water resources:

- ▲ \$45.2 million for safe drinking water
- ▲ \$149.3 million for flood control projects
- ▲ \$171 million for water supply reliability
- ▲ \$259.6 million to protect watersheds
- ▲ \$97.6 million for water treatment and water recycling
- ▲ \$40.6 million for water conservation

Significant components of this allocation of Proposition 13 funding include the following, some of which are supplemented with General Fund resources:

FLOOD PROTECTION

\$80.3 million is included to continue the state's investment in critical flood protection efforts, including projects in the Yuba-Feather River areas and Sacramento, and subventions for projects in the counties of Contra Costa, Fresno, Kern, Los Angeles, Marin, Napa, Orange, Riverside, San Bernardino, San Diego, Santa Clara, Sonoma, and Ventura County.

RIVER PROTECTION AND RESTORATION

\$84.5 million is provided to continue the creation of river parkways and to undertake river protection and restoration projects on the Los Angeles, San Gabriel, Otay, San Dieguito, Tijuana, Santa Clara, Guadalupe, San Joaquin, Kern, Sacramento, American, and Cosumnes Rivers.

SANTA ANA RIVER WATERSHED

The Santa Ana River is the largest coastal river system in Southern California. The River begins in the San Bernardino Mountains and flows over 100 miles southwesterly where it discharges to the Pacific Ocean in Huntington Beach. \$134.2 million is included to undertake a variety of Santa Ana River watershed restoration projects, including groundwater storage, water conservation, water quality improvement, and wildlife habitat enhancement.

WILDLIFE CONSERVATION BOARD**University of California Merced**1999-00 *No Change*2000-01 *\$30 million*

The May Revision includes \$30 million to acquire approximately 60,000 acres adjacent to the planned new UC Merced campus that will help ensure the protection of wetlands, waterways, and wildlife around the campus.

DEPARTMENT OF FISH AND GAME1999-00 *No Change*2000-01 *\$38.7 million***Improving Departmental Performance**

The May Revision includes \$24.9 million to augment the Department of Fish and Game's (DGF) ability to carry out its responsibilities. This augmentation will enable DGF to increase the number of timber harvest and environmental plans it reviews, increase the number of wardens it deploys in the field, replace much of its aging fleet of vehicles and boats and improve its administrative operations.

University of California Merced

\$13.8 million is included to assist development and implementation of various natural resources conservation plans related to construction of UC Merced and protecting the surrounding environment.

PUBLIC SAFETY

GOVERNOR'S INITIATIVES

- ▲ **Los Angeles City/County Crime Laboratory**—An augmentation of \$96.0 million General Fund is proposed to provide onetime local assistance grant to the City of Los Angeles and Los Angeles County to construct a joint state-of-the-art crime laboratory with the participation of the California State University at Los Angeles. The proposed facility would house forensic services and training components of the Los Angeles Police and Sheriffs Departments. The forensic laboratories currently serving these agencies are severely crowded and a new facility would assist in exonerating innocent suspects as well as successful prosecution of those who have committed crimes.
- ▲ **County Juvenile Detention Facility Construction Program**—An augmentation of \$75 million General Fund is proposed for allocation by the Board of Corrections to counties for capital construction of local juvenile detention facilities. This funding supplements the \$37.5 million in additional federal grant funds available for local juvenile facility construction, which together will provide for over 1,000 beds.
- ▲ **DNA Profiling**—An increase of \$50.0 million General Fund is proposed to provide local law enforcement agencies with the resources necessary to process 18,000 rape investigation kits over a three-year period. The use of DNA evidence will establish innocence and determine guilt in unsolved sexual assault cases.
- ▲ **Mentally Ill Offender Crime Reduction Grant Program**—An augmentation of \$50.0 million General Fund is proposed to provide grants to counties, on a competitive basis, for the purpose of expanding or establishing a continuum of graduated responses, including prevention, intervention and incarceration, which are designed to reduce the involvement of mentally ill offenders in the criminal justice system.
- ▲ **Juvenile Crime Enforcement and Accountability Challenge Grant Program**—An augmentation of \$25.0 million General Fund is proposed to supplement the existing Juvenile Crime Enforcement and Accountability Challenge Grant programs in 33 counties. This program provides grant awards that assist counties in developing and implementing a collaborative, multi-agency plan to address the problems of juvenile crime and delinquency.
- ▲ **Repeat Offender Prevention Project (ROPP)**—An increase of \$10.0 million General Fund is proposed to supplement existing ROPP pilot programs in eight counties, and to provide grant awards on a competitive basis for additional counties to establish ROPP programs. The main goal of the ROPP is to develop and implement a multi-agency, multi-disciplinary program that targets youth displaying behavior that may lead to delinquency and recidivism.

DEPARTMENT OF JUSTICE

1999-00	<i>No Change</i>
2000-01	<i>\$12.0 million</i>

Implementation of Tribal-State Gaming Compacts

The May Revision includes an increase of \$8.1 million from the Indian Gaming Special Distribution Fund and \$813,000 of reimbursement authority to implement the Indian Gaming Regulatory Program authorized by Chapter 874, Statutes of 1999, and the passage of Proposition 1A. Since the Indian Gaming Special Distribution Fund will not receive any revenues until the 2002-03 fiscal year, a General Fund loan, to be repaid by June 30, 2003, is proposed to provide the special fund with the necessary resources. This request also includes a

reduction of \$1.4 million of reimbursement authority for workload associated with tribal gaming compacts that never materialized.

Medi-Cal Fraud Caseload

An additional \$1.0 million General Fund and \$3.0 million federal funds is proposed to reduce an existing backlog of Medi-Cal fraud cases, and to meet increasing caseload demands as a result of an increased level of case referrals from the Department of Health Services. The availability of this funding would be contingent upon the enactment of AB 1098, related to the Medi-Cal fraud protection program.

Child Abuse Central Index

An augmentation of \$471,000 from the Sexual Habitual Offender Program Fund is included to conduct name checks against the Child Abuse Central Index for any staff person or employee of a child care facility who has contact with children pursuant to Chapter 881, Statutes of 1999.

DEPARTMENT OF CORRECTIONS

Inmate/Parolee Population/Caseload Changes

1999-00	-\$19.3 million
2000-01	-\$59.4 million

Current Year

Based upon the Department of Corrections' (CDC) spring estimates, the May Revision reflects an estimated June 30, 2000, population of 161,203 inmates. This amount is 3,085 fewer inmates than projected in the Governor's Budget, and results in savings of approximately \$14.2 million. The revised population estimate represents a decrease of 861 inmates (0.5 percent) over the June 30, 1999, population level.

The projected June 30, 2000, parolee population is 119,197. This is an increase of 2,289 parolees over the Governor's Budget. The revised population estimate and related program changes result in a net decrease of \$5.1 million, which includes a savings resulting from delays in the activation of 500 Community Correctional Re-entry Center beds and Community Correctional Facility crowding beds. The revised population estimate represents an increase of 6,703 parolees (6.0 percent) over the June 30, 1999, level.

The net effect of the changes listed above is a General Fund savings of approximately \$19.3 million.

Budget Year

The CDC's spring estimates reflect a June 30, 2001, population of 160,060 inmates, 6,461 inmates fewer than projected in the Governor's Budget. This decrease and related program changes result in savings of approximately \$56.8 million. The revised inmate population estimate reflects a decrease of 1,143 inmates from the revised June 30, 2000, population estimate.

The spring population estimate for parolees as of June 30, 2001, is 120,299, which is 697 more parolees than projected in the Governor's Budget. This increase and related program changes results in a net decrease of approximately \$2.6 million. This decrease is reflective of a delay in the activation of 500 Community Correctional Re-entry Center beds and Community Correctional Facility crowding beds. The parolee population level projected for the budget

year is an increase of 1,102 parolees (0.9 percent) over the revised population estimate for June 30, 2000.

The net effect of the changes listed above is a General Fund savings of approximately \$59.4 million.

Telecommunications Replacement

1999-00	<i>No Change</i>
2000-01	<i>\$2.3 million</i>

An increase of \$2.3 million General Fund is proposed for the first year of a six-year telecommunications equipment replacement schedule at the following five institutions: California Medical Facility; Correctional Rehabilitation Center; California Men's Colony; California Correctional Center; and California Institution for Women.

Enhanced Staffing and Program Relocation Costs at San Quentin State Prison

1999-00	<i>No Change</i>
2000-01	<i>\$.8 million</i>

An augmentation of \$817,000 General Fund is proposed to increase staffing at San Quentin State Prison to: 1) enhance security coverage for condemned inmates housed in the Adjustment Center (\$423,000); and 2) address increased staffing needs and cost associated with the relocation of programs currently sited in San Quentin State Prison's Building 22, which is being closed due to seismic instability and deterioration (\$404,000).

Monthly Range Training

1999-00	<i>No Change</i>
2000-01	<i>\$3.6 million</i>

An increase of \$3.6 million General Fund is proposed to provide all correctional officers assigned to armed posts with additional range training.

Operational Restructuring and Budget Realignment: Use of Identified Savings

1999-00	<i>No Change</i>
2000-01	<i>No Change</i>

The Administration has submitted a Finance Letter detailing the department's proposed operational restructuring and budget realignment as well as the potential savings that would be generated. The May Revision includes a plan to use the savings resulting from the restructuring to address anticipated operating shortfalls for utilities, facilities operations, and inmate non-food subsistence items.

Mentally Disordered Offender Evaluations

1999-00	<i>No Change</i>
2000-01	<i>\$.3 million</i>

An augmentation of \$294,000 General Fund is proposed to address increased evaluation workload as part of the Mentally Disordered Offender program.

Contract Medical, Pharmaceuticals, and Medical/ Psychiatric Supplies

1999-00	<i>No Change</i>
2000-01	<i>\$7.6 million</i>

An increase of \$7.6 million General Fund is included to address a net projected expenditure increase for contract medical, pharmaceuticals and medical/psychiatric supplies.

BOARD OF CORRECTIONS

County Juvenile Detention Facility Construction Program

1999-00	<i>No Change</i>
2000-01	<i>\$75.0 million</i>

An increase of \$75.0 million General Fund is proposed to provide local assistance grant awards on a competitive basis for counties to build, renovate, or expand local juvenile detention facilities.

Violent Offender Incarceration/Truth-in-Sentencing (VOI/TIS) Federal Fiscal Year (FFY) 2000 Grant Funds

1999-00	<i>No Change</i>
2000-01	<i>\$37.5 million</i>

An increase of \$37.5 million is proposed to reflect the FFY 2000 federal VOI/TIS Grant Program funds that the state anticipates receiving during the 2000-01 state fiscal year. These funds will be allocated by the Board of Corrections to local governments on a competitive basis to build or expand both adult and juvenile detention facilities.

Juvenile Crime Enforcement and Accountability Challenge Grant Program

1999-00	<i>No Change</i>
2000-01	<i>\$25.0 million</i>

An augmentation of \$25.0 million General Fund is proposed to supplement the existing Juvenile Crime Enforcement and Accountability Challenge Grant programs in 20 counties.

Mentally Ill Offender Crime Reduction Grant Program

1999-00	<i>No Change</i>
2000-01	<i>\$50.0 million</i>

An augmentation of \$50.0 million General Fund is proposed as part of the Governor's Mental Health Initiative to provide grants to counties, on a competitive basis, for the purpose of expanding or establishing a continuum of graduated responses, including prevention, intervention and incarceration, which are designed to reduce the involvement of mentally ill offenders in the criminal justice system.

Repeat Offender Prevention Project (ROPP)

1999-00	<i>No Change</i>
2000-01	<i>\$10.0 million</i>

An increase of \$10.0 million General Fund is proposed to supplement existing ROPP pilot programs in eight counties, and to provide grant awards on a competitive basis for additional counties to establish ROPP programs.

DEPARTMENT OF THE YOUTH AUTHORITY

Population Adjustments

1999-00	<i>-\$0.9 million</i>
2000-01	<i>-\$1.4 million</i>

Current Year

For 1999-00, the May Revision estimate for the year-end institution population is 7,375, a decrease of 55 from the projection included in the Governor's Budget. This population decline results in a General Fund savings of \$473,000. In addition, the Youth Authority projects a year-end parole population of 4,850, or a decrease of 285 from the projection included in the Governor's Budget, which results in an additional General Fund savings of \$461,000.

Budget Year

For 2000-01, the year-end institution population is projected to be 7,300, which is 120 fewer than anticipated in the Governor's Budget and results in a General Fund savings of \$754,000. The Youth Authority projects a year-end population of 4,825, or a decrease of 330 from the level assumed in the Governor's Budget, resulting in additional General Fund savings of \$691,000.

Youthful Offender Database Application

1999-00	<i>No Change</i>
2000-01	<i>\$0.4 million</i>

An increase of \$425,000 General Fund is proposed to provide technical support and maintenance for the Youthful Offender Database Application and the associated Wide Area Network. This database application enhances the ability of the department to effectively track ward and parolee information, compile statistics, and improve information sharing among parole offices.

BOARD OF PRISON TERMS

Hearing Workload Adjustment

1999-00	<i>\$0.1 million</i>
2000-01	<i>\$0.1 million</i>

An augmentation of \$86,000 General Fund in fiscal year 1999-2000 and \$129,000 General Fund in fiscal year 2000-01 is proposed to accommodate workload associated with a net increase in the projected number of parole consideration, mentally disordered offender, sexually violent predator, parole revocation, and appeals hearings.

OFFICE OF CRIMINAL JUSTICE PLANNING

1999-00	<i>No change</i>
2000-01	<i>\$146.0 million</i>

DNA Profiling

An increase of \$50 million from the General Fund is proposed to provide local law enforcement agencies with the resources necessary to process 18,000 rape investigation kits over a three-year period.

Los Angeles City/County Crime Laboratory

An augmentation of \$96 million General Fund is proposed to provide a one-time local assistance grant to the City of Los Angeles and Los Angeles County to construct a joint crime laboratory with the participation of the California State University at Los Angeles.

HOUSING

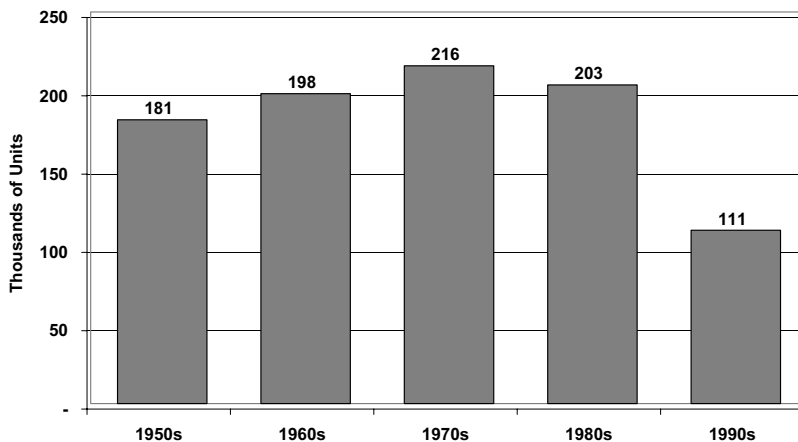
GOVERNOR'S INITIATIVES DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

1990-00 *No change*
2000-01 *\$500 million*

California is suffering a chronic shortage of new housing, which has driven up housing costs. Ultimately, high housing costs threaten California's economic prosperity and quality of life. Housing production in the rest of the nation recovered strongly after the recession; however, in most parts of California, the recovery has been modest.

FIGURE HOUS-1

**California New Housing Permits
10-Year Averages, 1950-99**



Housing is often being created far from jobs and does not make effective use of existing urban infrastructure. The resulting commutes further overcrowded freeways and roads. Recognizing this problem, the Administration proposes a housing initiative of \$500 million to increase the supply and affordability of diverse housing choices and to promote intelligently

planned communities. This is the largest commitment of the General Fund to housing programs in State history. These funds are expected to help produce 50,000 - 70,000 additional housing units. The May Revision includes the following program augmentations:

- ▲ **Community Amenities and Development Fund (\$200 million)**—The Administration proposes an innovative program to increase housing supply by providing financial incentives to cities and counties that issue building permits. One-time grants will be provided to local governments in proportion to the increase in the numbers of building permits issued for housing. Additional funds will be provided to reward communities that issue permits for developments that place less demand on state infrastructure resources, such as in-fill projects, reuse of commercial or industrial sites for mixed uses including housing, housing served by transit, housing in high job growth areas, and housing affordable to low-and moderate-income families.

To receive funds, local entities must have a housing element of the general plan that complies with state law, to assure that adequate land is available for housing construction. Funds will be available for a broad range of capital purposes that can address community impact concerns, such as parks, environmental mitigation, transit stations and equipment, libraries, school facilities and play areas, open space, park and ride lots, traffic lights and

calming measures, police and fire stations, green belts and community centers. These incentives have the potential to result in an increase of 20,000-40,000 housing units constructed.

- ▲ **Homeownership programs (\$150 million)**—Funds are proposed to help low- and middle-income Californians to own homes through down payment assistance. Funding is also provided for a variety of predevelopment and financing tools that facilitate production of affordable housing. Of the \$155 million, \$100 million will be available for deferred payment second mortgages of up to three percent of the purchase price to assist low- and moderate-income buyers to make down payments.

The Department will use another \$50 million for the Omnibus Homeownership Program that is being created in pending legislation now moving through the Legislature. This omnibus program is intended to be a one-stop shop for housing developers to receive a variety of types of assistance helpful in developing affordable housing. The program also helps homeowners retain their homes by finding others to share expenses and to rehabilitate older homes. These two programs in total are anticipated to assist 22,500 families.

- ▲ **Multifamily Rental Housing programs (\$97.4 million)**—Funding from this component of the housing initiative will leverage significant federal, private, and local funds to produce rental housing for California's workers and their families. The initiative includes \$21.4 million annually for the new Downtown Rebound program, which provides financing in urban areas for in-fill projects and conversion of under-used commercial and industrial property to mixed use or housing. Also included is \$76 million (\$10 million on an ongoing basis) to finance multi-family housing for low- and moderate-income families throughout the state. It is anticipated that 3,050 to 4,240 units will be produced with the funds appropriated in 2000-01, and about 1,100 annually in following years.
- ▲ **Farmworker Housing (\$10 million)**—The May Revision proposes an ongoing increase in the Farmworker Housing Grant Program to a total funding level of \$13.5 million. The program finances construction of both single family homes and multi-family housing. This funding level is expected to produce 1,350 units annually.
- ▲ **Other priority housing programs (\$42.6 million)**—Housing for certain "special needs" populations is especially difficult to build, and services are often needed along with the physical structure. Recognizing this, the initiative includes \$17 million for homeless shelter development and operations (including \$8 million ongoing for operations) and \$20 million to construct supportive housing, including housing for young adults leaving foster care and persons with a variety of disabilities. These augmentations will result in construction of approximately 3,800 shelter beds and housing units and will support over 800,000 shelter bed-days.

In addition, to assist local governments in planning for housing better and uniformly interpreting building codes, the May Revision includes \$600,000 and six personnel years for the Department to provide technical assistance and training to local entities. Another \$5 million is proposed for interregional partnership planning grants that allow collaborative work by two or more communities in different regions to address the serious negative impacts of jobs and housing imbalances.

GENERAL GOVERNMENT

TRADE AND COMMERCE AGENCY

1999-00	<i>No change</i>
2000-01	<i>\$35.2 million</i>

RUNAWAY PRODUCTION IN THE ENTERTAINMENT INDUSTRY

The Administration proposes three initiatives totaling \$18.5 million to stem the loss of jobs and production in the entertainment industry to other states and nations.

- ▲ **Film California First Fund**—The May Revision includes \$15.3 million to establish the Film California First Fund to reimburse state and local agencies for the costs they incur for television and film productions in their jurisdictions. This reimbursement would be in lieu of film permit and fee charges to the industry.
- ▲ **Film Incubator**—The Administration proposes \$3 million as an investment in a new film production incubator that will attract and retain in California the most innovative segments of the independent film and television production industry. The incubator will provide access to new digital entertainment technologies. An additional \$1 million will be proposed in each of the following two years for a total of \$5 million for the incubator.
- ▲ **State Theatrical Arts Resources (STAR) Partnership**—The California Film Commission proposes to help coordinate the entertainment industry's access to government property that can be rented for production. The May Revision includes \$159,000 for staff for this effort.

SMALL BUSINESS ASSISTANCE

- ▲ **Small Business Loan Guarantee Program**—The Administration proposes \$16.1 million to expand the Trade and Commerce Agency's Small Business Loan Guarantee Program. The program provides guarantees of loans for small business with difficulty accessing conventional financing. The expansion provides four new financial development centers serving the cities of Modesto, Ontario, Santa Ana, San Fernando, San Jose, and Thousand Oaks, and will eventually support about \$71 million in additional loans to small businesses.
- ▲ **Expansion of Small Business Development Center Program**—The May Revision includes \$608,000 General Fund to match \$1.5 million in federal funds for expansion of the Small Business Development Center program. The program provides quality management and technical assistance to California's small business sector, serving as a consultant to entrepreneurs and growing businesses. The augmentation increases the level of service that existing centers can provide and establishes three new urban centers and a technology center.

FRANCHISE TAX BOARD

1999-00	<i>No change</i>
2000-01	<i>\$6.6 million</i>

- ▲ **Administration of Prosperity Dividend Tax Rebates:** The May Revision includes \$1.4 million for the Board to process an estimated 8.8 million tax rebates as part of the Administration's tax rebate proposal. (This proposal is described in the Tax Relief section.)

- ▲ **Homeowners and Renters Assistance Program:** The May Revision includes \$2 million to process the increased volume of program claims and inquiries resulting from passage of Chapter 322/98 that increased income ceilings for the program.
- ▲ **California Child Support Automation System (CCSAS) and the California Arrearages Management Project (CAMP):** The Administration proposes an additional \$1.8 million General Fund for CCSAS and \$1.4 million General Fund for CAMP to update cost estimates based on a more realistic assessment of system requirements. These funds will be matched with \$7.9 million in additional federal funds, for a total increase for child support automation activities of \$11.1 million.

E-GOVERNMENT

1999-00	<i>No Change</i>
2000-01	<i>\$5.8 million</i>

Government-to-Business Systems

An increase of \$2.5 million General Fund is proposed to augment funding already included in the Governor's Budget for the One-Stop e-Business Center. This proposal would fund several targeted feasibility studies and initial design phases for expanding the range of services available to facilitate online government-business interaction. Areas for study would include professional licensing, competitive bid processing, procurement expansion, environmental regulation of business, and job posting and recruitment.

Government-to-Citizen Systems

An additional \$1.2 million is included to provide funding for consultant services to study the feasibility of and plan information technology projects to improve efficiency of governmental operations and delivery of services to the public. Areas of operation would include online domestic employer tax filing, expansion of Department of Motor Vehicles online services, and provision of state permits to individuals.

California Home Page

An additional augmentation of \$1.6 million is included to redesign and upgrade the California Home Page to provide improved access to all areas of state government by the public, including agencies, departments, boards, and commissions.

Intranet Studies

To enhance interdepartmental communication in state government, an additional \$500,000 is included to fund consultant studies on the development of a state intranet capability.

DEPARTMENT OF INFORMATION TECHNOLOGY

1999-00	<i>No Change</i>
2000-01	<i>\$2.6 million</i>

Management and Oversight of Information Technology

The May Revision proposes an augmentation of \$2.6 million to provide the resources necessary for information technology support services and to increase the level of oversight and coordination of State information technology efforts, which is intended to reduce the risk of project failure.

EXPENDITURES

LOCAL GOVERNMENT

FINANCIAL ASSISTANCE TO LOCAL GOVERNMENTS

1999-00	<i>No Change</i>
2000-01	<i>\$250 million</i>

So that local government can share in the State's economic prosperity, the Administration proposes to provide \$250 million in one-time discretionary funding to local governments. Funds would be allocated 50 percent on a per-capita basis and 50 percent based on local governments' contribution to their counties' Educational Revenue Augmentation Fund.

In addition, the May Revision provides significant program assistance for local governments, as outlined below:

▲ Traffic Congestion Relief Plan—local streets and roads	\$400.0
▲ Mental health	\$100.6
▲ Social services	\$36.3
▲ Resources and environmental protection	\$125.0
▲ Public safety	\$256.0
▲ Housing	\$345.0
▲ Economic development	\$15.3

Further information on these May Revision proposals is provided in the relevant sections of this document.



JUDICIAL BRANCH

JUDICIARY

1999-00 \$0.6 million

2000-01 \$1.0 million

Salary Increase for Judicial Officers

An augmentation of \$237,000 is proposed to provide an additional 3.5 percent salary increase above the 5 percent judicial officer salary increase proposed in the Governor's Budget. This funding would provide an 8.5 percent salary increase for the judicial officers of the Supreme Court and Courts of Appeal beginning on January 1, 2001.

Enhancement of Trial Court Accountability

An additional \$750,000 is proposed for the Administrative Office of the Courts (AOC) to support a pilot project to audit ten trial courts that will focus primarily on county/state transition expenditures. The AOC staff will coordinate the project and will contract with a consultant for the examination.

Civil Case Coordination

An increase of \$550,000 is included in 1999-00 to reimburse trial courts for costs incurred to coordinate large civil cases. These cases may be class actions, involve numerous and often complex claims based on the same legal issues, or involve a specific product liability.

TRIAL COURTS

1999-00 \$13.0 million

2000-01 \$91.1 million

Salary Increase for Trial Court Judicial Officers

An augmentation of \$4.4 million is proposed to provide an additional 3.5 percent of compensation for trial court judicial officers above the 5 percent salary increase proposed in the Governor's Budget. This funding would provide for a 8.5 percent salary increase for trial court judicial officers beginning on January 1, 2001.

Negotiated Salary Increases (NSIs)

An increase of \$13.0 million for the current year and \$37.5 million for the budget year is proposed to fund ongoing costs of NSIs finalized by the trial courts for trial court employees in 1999-00 and for the costs of anticipated agreements in 2000-01.

Judicial Branch Technology Initiative

An additional \$34.4 million is proposed in 2000-01 to fund new case management systems (\$21 million), critical software licenses and the replacement of outdated equipment (\$7.4 million), and technology planning for the trial courts (\$6.0 million).

Los Angeles Court Mediation Pilot Project

An increase of \$506,000 is proposed for a three-year mediation pilot project in the Los Angeles trial courts. This project would test the validity of various mediation structures and compare that research with the existing mediation pilot projects in four other county trial court systems.

County/State Transition Costs

An augmentation of \$8.6 million is proposed for Trial Court Funding to fund the increased costs for existing services that counties provide to the courts.

Court-Appointed Counsel, Juvenile Dependency Representation

A \$5.7 million increase is included to fund increased caseload and representation costs. This funding will ensure that juvenile dependents are represented in legal proceedings and reflects an increase in the number of hearings requiring representation as well as increases in the cost of representation.

STATEWIDE ISSUES

ELIMINATION OF VACANT POSITIONS

The Administration proposes to eliminate 1,736 vacant positions as part of the May Revision of the 2000-01 Governor's Budget. Excess vacancies proposed for elimination do not include public safety, custodial, or health care positions. Together with the 1,840 vacant positions that already have been eliminated since 1998-99, this will reduce the excess vacancies in the 29 departments reviewed by the Department of Finance by 3,576. During the fall budget process, the Administration will continue its efforts to minimize excess vacancies by examining the vacant positions in departments that were not part of the present review and by reassessing the vacant positions of the 29 largest departments, based on their 1999-00 success in filling positions that were vacant during 1998-99.

The following is a list of positions eliminated in these departments:

Department of Justice	144.1
Department of Consumer Affairs	44.3
Department of General Services	93.8
Department of Motor Vehicles	241.1
Department of Forestry and Fire Protection	215.0
Department of Fish and Game	106.0
Department of Water Resources	65.8
Water Resources Control Board	5.0
Department of Toxic Substances Control	25.0
Department of Health Services	145.3
Department of Mental Health	50.0
Department of Rehabilitation	3.0
Department of Social Services	150.0
Department of Corrections	300.0
California Youth Authority	66.5
Department of Industrial Relations	31.0
Department of Food and Agriculture	50.0

JANITORIAL/CONTRACT SERVICES

1999-00	<i>No Change</i>
2000-01	<i>\$6.0 million</i>

An increase of \$6.0 million (\$3.0 million General Fund, \$3.0 million other funds) is proposed to fund the costs of providing specific benefits to certain contractual workers. The Administration will support statutory changes to require that state contracts for specified services include provisions for certain employee benefits such as health, dental, and vision that are roughly comparable to the benefits provided to state employees performing similar duties. Specifically, the employees involved include janitorial, custodial, food service, laundry, and security services.

MANDATE APPROPRIATIONS FOR LOCAL GOVERNMENTS

1999-00	<i>No Change</i>
2000-01	<i>\$112.2 million</i>

The State Controller's Office advises that the claims they received from local governments (cities, counties, special districts) for reimbursement of state-mandated local costs exceeded the appropriation by \$107.3 million. In addition, since January the Commission on State Mandates has determined that two additional statutes qualify for reimbursement as state mandates and has approved \$2.0 million for that purpose. The Commission has also adopted amendments to the parameters and guidelines for an existing mandate which results in additional costs of approximately \$2.0 million.

These changes result in the need for an additional set aside of \$112.2 million, including \$0.9 million of interest accruing from April 1, 2000, through June 30, 2000. The 2000 mandates claims bill (SB 1894) will appropriate funding for these programs.

PAYMENT OF INTEREST ON GENERAL FUND LOANS

1999-00	<i>-\$3.0 million</i>
2000-01	<i>-\$37.6 million</i>

1999-00 Fiscal Year

The Governor's Budget anticipated the internal borrowing interest cost to be \$4.8 million General Fund. The interest cost is now estimated at \$1.8 million, or a savings of \$3.0 million. This is based on the actual cost of \$1.7 million through April 19th and anticipated costs through the end of the fiscal year. There is no change in the external borrowing interest cost for 1999-00. The Revenue Anticipation Notes (RANs) were sold with an estimated cost of \$25.6 million. The total 1999-00 General Fund savings is \$3.0 million.

2000-01 Fiscal Year

The May Revision estimates are preliminary because the cash flow projection process will not be completed in time for the May 14 statutory deadline. For this preliminary estimate, the increased revenue is assumed to be appropriated and disbursed based on the cash flow pattern projected in the Governor's Budget. The interest rates for both internal and external borrowing have been increased due to reflect higher market interest rates. This preliminary estimate could be significantly revised once the cash flow projection is completed. The updated cash flow and related interest costs will be available several days after the formal release of the May Revision.

In the Governor's Budget, the 2000-01 interest cost on internal borrowing was anticipated to be \$24.2 million General Fund. Based on this preliminary projection, this cost is now anticipated to be approximately \$14.1 million, or a savings of \$10.1 million. For external borrowing, the Governor's Budget estimated the sale of RANs in the amount of \$2.0 billion with an interest rate of four percent for 11 months. The total estimated interest cost was \$73.3 million General Fund. We are now estimating the sale of RANs in the amount of \$1.0 billion with an interest rate of five percent for 11 months. The revised estimated interest cost is \$45.8 million General Fund, a savings of \$27.5 million. The total 2000-01 General Fund savings is \$37.6 million.

Again, the sizing of the 2000-01 RANs is based on a preliminary estimate without the benefit of an updated cash flow projection reflecting all of the May Revision changes. The cash flow projection that will be used in determining a RAN's size, if needed, is the cash flow projection for the Budget Act, rather than the May Revision or the Governor's Budget.

2000-01 STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIII B of the California Constitution, the 2000-01 State Appropriations Limit (SAL) is estimated to be \$54.012 billion. The revised limit is the result of applying the growth factor of 6.59 percent. The revised 2000-01 limit is \$593 million above the \$53.419 billion estimated in January. This increase is due to changes in the following factors:

	January Percentage	May Revision Percentage
Per Capita Personal	3.79	4.79*
State Civilian Population	1.60	1.73
K-14 Average Daily Attendance	1.53	1.69

* The federal estimates of state personal income will be significantly revised, and the fourth quarter 1999 release date has been postponed to May 17, 2000. This reflects our current best estimate of what the federal Bureau of Economic Analysis will print at that time.

The SAL for 1999-00 does not change since it was statutorily established by Section 12.00 of the 1999 Budget Act.

SUMMARY CHARTS

2000-01 General Fund Budget Summary (Dollars in Millions)

	1999-00	2000-01
Prior Year Balance	\$3,851	\$7,512
Revenues and Transfers	\$70,924	\$73,791
Total Resources Available	\$74,775	\$81,303
Expenditures	\$67,263	\$78,242
Fund Balance	\$7,512	\$3,061
Budget Reserves and Set-Asides		
Reserve for Liquidation of Encumbrances	\$592	\$592
Set-aside for Legal Contingencies		500
Onetime Legislative Initiatives		200
Special Fund for Economic Uncertainties	6,920	1,769

SUMMARY CHARTS

2000-01 Revenue Sources

(Dollars in Millions)

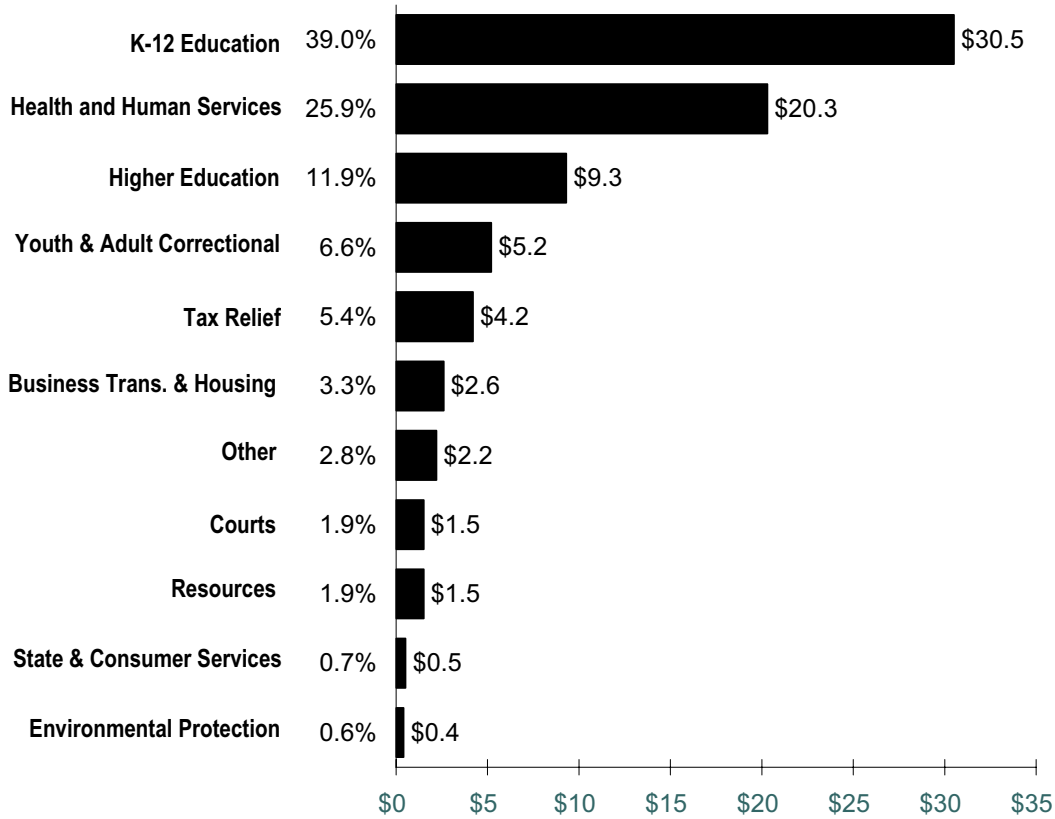
	General Fund	Special Fund
Personal Income Tax	\$41,201	--
Sales Tax	21,378	\$2,843
Bank and Corporation Tax	6,800	--
Highway Users Taxes	--	3,172
Motor Vehicle Fees	26	5,199
Insurance Tax	1,321	--
Estate Taxes	1,047	--
Liquor Tax	287	--
Tobacco Taxes	132	1,077
Horseracing Fees	1	33
Other	1,598	4,134
Total	\$73,791	\$16,458

**General Fund Expenditures
by Agency**

(Dollars in Millions)

	1999-00	2000-01
Legislative, Judicial, Executive	\$2,338	\$2,535
State and Consumer Services	492	528
Business, Transportation & Housing	402	2,616
Trade and Commerce	483	118
Resources	1,442	1,492
Environmental Protection	178	431
Health and Welfare	17,779	20,255
Youth and Adult Correctional	4,802	5,182
K-12 Education	27,622	30,492
Higher Education	8,012	9,317
General Government	3,713	5,276
Total	\$67,263	\$78,242

2000-01 General Fund Expenditures
(Dollars in Billions)



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California's Budget on the Internet

This document is also available on the Internet at the California Department of Finance
website: <http://www.dof.ca.gov>



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